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# INTRODUCTION

Ink was hardly dry on the historic, comprehensive Food Security Act of 1985 signed December 23, 1985 until changes were being made. Furthermore, the very problems giving rise to so much debate during its development of the past months were stubbornly persistent. These events highlight the urgent need for a stronger public policy research and education program with more reliable, relevant, and innovative products.

The realization that policy changes are still being proposed and debated should not be surprising since policy decisions are never "perfect" nor ever agreed to by all interested groups. However, the evolving economic conditions will substantially influence how satisfactory the 1985 Act is viewed by history. These future conditions will be largely shaped by the macro-environment of the federal budget, exchange rates, trade policies of other countries, interest rates, and crop growing conditions around the world. Thus, policy researchers and educators are already challenged to insure that even better, more widely understood information is available for choices to be made by our nation at the termination of the current Act in 1990. By then, new information will also be available from the real laboratory provided for the policy researcher by these changing conditions and by new policy thrusts, such as the conservation reserve and flexible loan rates.

In this issue, several articles deal with these evolving policies. Carl Zulauf carefully tracks the Gramm-Rudman-Hollings budget amendment still in the courts. Tom Fulton, in his article, picks up the Gramm-Rudman-Hollings theme and the impact it and the Food Security Act of 1985 are likely to have on federal agricultural programs. In the third article, Beverly Fleisher places both laws in a farm context and discusses the added risk producers must now face.

The November issue of PRN will concentrate on efforts now under way to begin a free trade dialogue between the United States and Canada. Formal talks are set to begin this summer.

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## Program Outline for National Public Policy Education Conference

Major topics for this annual conference set for September 15-18, 1986, Denver, Colorado, will include: (1) balancing the Federal budget; (2) competitiveness of U.S. agriculture; (3) human stress and adjustment in agriculture; and (4) the Food Security Act of 1985 and public policy education for the future.

For information concerning program and arrangements, contact Dennis Henderson, Chairman, National Public Policy Education Committee, Department of Agricultural Economics and Rural Sociology, Ohio State University, 2120 Fyffe Road, Columbus, Ohio 43210.

## Northeastern States Plan a Regional Policy Project

Nearly twenty agricultural economists met in Hartford, Connecticut in April, 1986 to discuss a new regional project to study the food system. The group decided that such a project was needed and formulated a set of provisional project objectives which included: (1) to assess strategic decision making by food system participants; (2) to assess changes in the information structure of the food system and their implications for public policy and economic performance; (3) to analyze public and private mechanisms; (4) to assess the capacity of the food system to adjust to changes in international factor, commodity, and capital markets; and (5) to identify causes and evaluate changes in coordinating mechanisms including changes in technology, firm marketing, strategies, consumer preferences, and regulation. The project is tentatively titled, "Private Strategies, Public Policies, and Food System Performance".

For further information, contact Ron Cotteril, Department of Agricultural Economics and Rural Sociology, University of Connecticut, Storrs, CT 06268; phone: (203) 486-2742.

## Upcoming Southeastern Policy Conferences

The Southern Extension Public Affairs Committee (SEPAC) in cooperation with the Southern Extension Marketing Committee, Farm Foundation, and Southern Rural Development Center, is sponsoring a workshop entitled, "The Competitive Position of Southern Agriculture in a World Economy", for November 4-6, 1986 in Atlanta, Georgia. The purpose of the workshop is to provide staff and leader training on the competitive position of Southern Agriculture in the world economy.

In addition, the previously announced conference (see Policy Research Notes, December, 1985, p. 3) by SEPAC in cooperation with the Southern Extension Foresters, Southern Rural Development Center, TVA and Farm Foundation, on "Forestry Policy and Land Use Management" is now set for June 18-19, 1986, in Chattanooga, Tennessee.

Inquire about these conferences from H. Doss Brodnax, Jr., Chairman, SEPAC, P. O. Box 5446, Mississippi State, MS 39762; phone: (601) 325-3207.

## Progress on North Central Regional Policy Research Project

The new North Central project (see Policy Research Notes, December, 1985, p. 4) titled, "Agricultural and Food Policy Analysis for the 1990's", has now been approved by the regional agricultural economics departmental administrators and directors, and is before the Committee of nine for final endorsement. Set to commence October 1, 1986, further planning by interested researchers will occur during the 1986 annual AAEA meetings.

Researchers from any state interested in joining this effort should contact representatives of your unit to NC 169 or any of the three members of that executive committee: Marshall Martin (Purdue University); Bob Spitze (University of Illinois); and Willie Meyers (Iowa State University).

## Farm Policy/Technology Symposium Scheduled

A Farm Policy/Technology Symposium is scheduled for June 2-3 in Sacramento, California.

For further information contact Hal Carter, Department of Agricultural Economics, University of California, Davis, CA 95616.

## POLICY RESEARCH NEWS NOTES

### Evaluating the 1986 Cotton Program

Research has recently been completed on the profitability of participation versus nonparticipation for the 1986 Cotton Program. Profitability was estimated for representative 100 acre and 1,000 acre base farms in major cotton areas of Arizona. Special focus was given to "50/92" participation and to the added profitability of partnership versus sole-proprietor ownerships.

Inquire about this research and request a copy of the publication, The 1986 Cotton Program and Profits for Arizona Producers, from Harry Ayer, Department of Agricultural Economics, University of Arizona, Tucson, AZ 85721.

### Food Policy Research in the UK

Two recent research projects by the Food Policy Research, University of Bradford in Bradford, UK are concerned with dietary changes to lower cardiovascular disease rates and consumers' attitudes to foodstuffs. The first research study considers the impact of such dietary changes on U.K. agricultural industries. The second food policy analysis concludes that consumers' nutritional concerns have a significant impact on consumer choices.

Inquiry about these research projects and request copies of the relevant reports (10 English pounds each), Implications for the COMA Report on Diet and Cardiovascular Disease for British Agriculture, and Does the Consumer Really Care? from Stephen J. Fallows, Food Policy Research, University of Bradford, Bradford, BD7 1DP, UK.

### USDA Research Plan to Boost Farm Profits and Aid Exports

A six-year plan for U.S. Department of Agriculture research calls for new approaches in bolstering farm income and agricultural exports -- the two most critical problems facing the U.S. food and agricultural sector. The six-year plan guides program strategy for the Agricultural Research Service, the USDA's principle research and development agency. Other key concerns include expanding plant germplasm programs, conserving soil and water, protecting groundwater quality, reducing production and processing losses, and protecting the nutrition and safety of the food supply.

Request a copy of research results entitled Agricultural Research Service Program Plan, 6-Year Implementation Plan, 1986-1992 from News Division, Office of Information, USDA, Washington, D.C. 20250.

## "Highly Erodible Land" Defined

The USDA committee preparing regulations for sodbusting and conservation compliance provisions adopted an erosion index developed by ERS researchers, Nelson Bills and Ralph Heimlich. Depending upon the erosion index level selected, 180-216 million acres of potential cropland and 89-118 million acres of existing cropland will have to adopt conservation practices or face losing program benefits.

Inquire about this erosion index and request a copy of the committee's findings, Sodbusting: Land Use Change and Farm Programs (AER-536, June 1985) from Ralph Heimlich, Land Economics Branch-NRED-ERS, Room 408, 1301 New York Avenue, N.W., Washington, D.C. 20005-4788.

## First Annual Policy Review from the National Policy Center

Resources for the Future announces its first Annual Policy Review, The Dilemmas of Choice, edited by Kent A. Price. This volume, focusing on the policy debate surrounding the Food Security Act of 1985, includes chapters on history, rural economy, conservation, international trade, macroeconomics, alternative policy scenarios, and a review of current studies.

Order a copy (charge of $11.50) from Linda Pierce, Resources for the Future, 1616 P Street, N.W., Washington, D.C. 20036.

## Future of Agriculture in Colorado and the U.S.

Recently completed research indicates that political and economic events of the 70's and 80's have shaped the future for agriculture in Colorado and in the U.S. Results show that the existing stress in agriculture is a product of the changed economic environment. Furthermore, farmers which do survive the 80's will need to make permanent adjustments to a new and much more different set of economic and financial circumstances.

Inquiry about this research and request a copy of the related publication, Future Prospects for Agriculture in Colorado and the United States, from Tom Miller or Warren Trock, Department of Agricultural Economics, Colorado State University, Fort Collins, CO 80523.

## NPPEC Proceedings Now Available for 1985

Increasing Understanding of Public Problems and Policies - 1985, proceedings of the 1985 NPPEC are now available. It includes topics concerning the policy implications of the changing face of America; dealing with controversial issues in public education programs; rural community problems; and tax reform issues.

Request a copy of these proceedings from Farm Foundation, 1211 W. 22nd Street, Oak Brook, IL 60521.

## Workshop on Southern Rural Economy Issues Held

A workshop sponsored by the Southern Rural Development Center, Southern Growth Policies Board, Farm Foundation, Ford Foundation and Georgia Cooperative Extension Service was recently held. Workshop objectives included the following: (1) to emphasize the interrelationship of agriculture with the small community; (2) to promote a sharing of ideas about rural economic development between state leaders and representatives of Southern land-grant universities; (3) to provide an opportunity for state policymakers and representatives of the land-grant system to formulate programs dealing with the emerging issues of the rural economy in the Southern region; and (4) to establish a better knowledge base for economic development activities in rural areas.

Order a copy of the proceedings, Emerging Issues in The Rural Economy of the South (charge of $5) from the Southern Rural Development Center, Box 5446, Mississippi State, MS 39762.

## Evaluating Production Costs for Cereals in the EC

Recently, production costs for wheat, barley, and corn in West Germany, France, Italy and the United Kingdom were collected from published sources by researchers at Cornell University. Figures were converted to a common basis, were corrected for different inflation rates, and were compared with U.S. averages using average exchange rates in 1982 when the U.S. dollar and ECU were roughly at par and in 1984 when the U.S. dollar was "overvalued".

Inquire about this research and request a copy of the related publication, Production Costs for Cereals in the European Community: Comparisons with the United States, 1977-1984, from B. F. Stanton, Department of Agricultural Economics, Cornell University, Ithaca, NY 14853.

## Trilateral Commission Studies Policy

The Trilateral Commission has recently completed its study of reforming the conditions of trade in agricultural products. Its findings are summarized in Agricultural Policy and Trade: Adjusting Domestic Programs in an International Framework by D. Gale Johnson, K. Hemmi and Pierre Lardinois.

Request a copy of this report from The Trilateral Commission, 345 East 46th Avenue, New York, NY 10017.

## Comparative Advantage in Japan and South Korea Studied

Research has recently been completed on the changing pattern of agricultural protection, self-sufficiency, and comparative advantage for meats, grains, and oilseeds in Japan and South Korea. Results show why rising budgetary outlays and increasing resource opportunity costs will continue to escalate in these two East Asian countries unless more market-oriented agricultural policies are adopted.

Inquire about this research and request a copy of a related paper entitled, "Changes in the Pattern of Comparative Advantage and Agricultural Protection in Japanese and South Korean Markets" from Thomas Vollrath, ERS/IED/ADB, Room 824D, 1301 New York Avenue, N.W., Washington, D.C. 20005-4788.

## Supermarket Nutrition Program Evaluated in the United Kingdom

Research has recently been completed on the "Tesco" Healthy Eating Program which was launched by Tesco Supermarkets (UK) in January, 1985. Research assesses the impact on consumer attitudes and consumers' food purchase behavior.

Obtain a copy of these research findings titled The Impact of a Supermarket Nutrition Information Programme (charge of 15 English pounds) from Ann Freckleton, Food Policy Research, University of Bradford, Bradford, BD7 1DP, England.

## Real Estate Property Tax Assessment Performance Project

Currently, a policy debate surrounds the structure and performance of real estate tax assessment systems. Issues include the decentralization of the system, the effectiveness of incentive bonuses and training stipends for assessors, and the relationship between assessor certification and quality assessments. These issues as well as others are under study in a comprehensive analysis of the Illinois real property assessment system.

Inquire about this study from David L. Chicoine, Department of Agricultural Economics, University of Illinois, 1301 W. Gregory Drive, Urbana, IL 61801.

## Water Quality Policies Discussed

The Agrichemical Management to Protect Water Quality Colloquium was recently held. Topics discussed included nature of agricultural pollution sources, existing abatement programs, current management practices, e.g. how they are targeted and implemented by farmers, relationship between management and soil conservation, how changes in production systems could affect water quality, and programs to protect water quality. The colloquium was sponsored by the National Research Council.

Inquire about this colloquium and order a copy of the publication (charge of $12.50) Pesticides and Groundwater Quality: Issues and Problems in Four States from Kathi Hand, National Academy Press, 2101 Constitution Avenue, N.W., Washington, D.C. 20418.

## Water Quality Conference Papers Available

A conference held in November 1985, brought together researchers, educators, government agencies, and farm-related organizations which were all concerned about water quality. The conference highlighted the nature, cause and extent of water quality problems in the South, and the current level of research-based knowledge available to understand and address these issues. Sponsors of the conference included the Southern Extension Public Affairs Committee, Southern Rural Development Center, Farm Foundation, Extension Southern Community Development Committee and Extension Agricultural and Natural Resources Program Leaders Committee.

Order a copy of the proceedings, Water Quality: Agriculture and Community Concerns in the South (charge of $5) from the Southern Rural Development Center, Box 5446, Mississippi State, MS 39762.

## New Lactose Standards Proposed

The Whey Products Institute has petitioned the Food and Drug Administration for a change in the Standard of Identity for Lactose (21 CFR 168.122) based on the recent AOAC acceptance of a HPLC method to measure lactose content. In addition, the Institute has petitioned the FDA for a new Standard of Identify for Lactose (Milk Sugar) Product which has a lactose content between 90% to 98%.

Inquire about these proposed changes from Dr. Warren S. Clark, Jr., Executive Director, Whey Products Institute, 130 N. Franklin Street, Chicago, IL 60606.

## Analysis of Food Irradiation Policy

Food irradiation has received renewed attention because of recent FDA proposals to expand the list of foods that can be legally irradiated. This study focuses on four criteria affecting commercial viability -- technical feasibility, consumer acceptance and demand for benefits, economic feasibility, and regulatory approval. Treatment costs for five food irradiation applications are estimated as well as the public health benefits from reducing the incidence of five human diseases caused by meats and poultry.

Inquiry about this research and a request a copy of a report, Food Irradiation: New Perspectives on a Controversial Technology, from Rosanna Mentzer Morrison or Tanya Roberts, ERS-USDA, Room 932, 1301 New York Avenue, N.W., Washington, D.C. 20005-4788.

## Inside the Agricultural Treadmill

A model of the diffusion process illuminates the inner workings of Willard Cochran's "Treadmill of Agriculture," and illustrates the effects of new technology on individual firms, the structure of the industry, and market prices and incomes. The model permits experimental separation of the effects of new technology, from that emanating from product demand or input supply conditions. Intrafirm adjustments to changing relative prices are compared between old and new technologies, and contrasted with per-farm industry average resource allocations.

Inquire about this research project from Lloyd D. Teigen, Food and Agricultural Policy Branch, USDA-Economic Research Service, Room 837c, 1301 New York Avenue N.W., Washington, D.C. 20005-4788. A report on this research topic titled "Technological Diffusion: Effects on Productivity, Structure, Firms and Markets," in: J. T. Molnar, Ed. Agricultural Change: Consequences for Southern Farms and Rural Communities. Request a reprint from: J. T. Molnar, Department of Agricultural Economics and Rural Sociology, Auburn University, Auburn Alabama 36849-4201.

# GRAMM-RUDMAN-HOLLINGS:
# The Debate Has Just Begun

by

Carl R. Zulauf*

Few events of recent history have the potential to change the relationship between Americans and their government as much as the budget balancing provision known as Gramm-Rudman-Hollings (GRH). Attached to legislation which raised the Federal debt ceiling to $2.079 trillion, GRH carries its sponsors' names: Senators Phil Gramm of Texas, Warren Rudman of Vermont -- Republicans, and Ernest Hollings of South Carolina -- Democrat. Adopted during the closing days of the 99th Congress, 1st session, and signed on December 12, 1985, GRH was a difficult compromise following years of controversy and concern about growing deficits, taxation, and budget priorities.

## Mandated Budget Cuts

GRH is a comprehensive revision of budget procedures, which requires elimination of the federal deficit using conventional legislative and executive means or, failing that, through a fallback process of automatic across-the-board mechanistic outlay cuts. The time table for deficit reduction is: Fiscal Year (FY) 86 - $172 billion (B), FY87 - $144 B, FY88 - $108 B, FY89 - $72 B, FY90 - $36 B, and FY91 - $0.

If Congress and the President can not agree on a budget with a deficit within $172 B in FY86 or one that is within $10 B of the target for FY87-90, a uniform across the board percentage cut in programs, projects, and activities is required to meet the target. Half the cuts are in defense spending and half in domestic spending. Because FY86 had begun before GRH became law, FY86 cuts were limited to no more than $11.7 B. These cuts became effective March 1, 1986.

Certain programs are exempted from the automatic cuts: social security, interest on federal debt, veterans' compensation, veterans' pension, Medicaid, Aid to Families with Dependent Children, Women-Infant-Children food program, Supplemental Security Income, food stamps, and child nutrition. In addition, medicare, veterans' health, Indian health, and community and migrant health centers can be cut no more than 1% in FY86 and no more than 2% thereafter. About half the budget is exempted from automatic cuts and 5-10% is in the limited cuts category.

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The author acknowledges the considerable assistance of Barbara Chow and the review comments by Bob Spitze, Tom Fulton, and Milt Ericksen.

Under GRH, the White House's Office of Budget and Management and the Congressional Budget Office submit budget estimates to the Comptroller General, who heads the General Accounting Office. If the budget target has not been met, the two agencies also submit the estimated cuts required to meet the deficit target set by GRH. The Comptroller General, an agency of the Congress, verifies the budget estimates and cuts and notifies the President. The President then must issue a sequester order which implements the automatic cuts reported by the Comptroller General.

## Constitutionality

Congress realized GRH raised several constitutional questions. Members of Congress were authorized to challenge GRH's constitutionality, and procedures for expedited judicial review were established. A special three judge district court was impaneled in Washington, D.C., with its decision directly appealed to the Supreme Court. The major constitutional questions are whether Congress delegated legislative powers to the Comptroller General that only Congress can exercise and whether GRH conferred on the Comptroller General executive powers that may not constitutionally be given to an official not removable by the President. The latter involves the "separation of power" doctrine.

The district court heard arguments January 10 and ruled February 7 that the power of the Comptroller General to order automatic cuts by the President was unconstitutional. The Court specifically ruled that, while Congress could constitutionally delegate broad powers to cut federal spending to the President, it could not delegate them to the Comptroller General because the Comptroller General can not be removed by the President. No other provision of GRH was affected by the court ruling. Thus, the deficit targets must still be met pending review by the Supreme Court.

The Court's ruling did not invalidate an alternative mechanism specified by GRH in just such a contingency for implementing the automatic cuts. Under this alternative, the automatic cuts required by GRH to meet the deficit target would go to a special committee comprised of House and Senate budget committee members. It would report the sequester order as a joint resolution, which must pass the Senate and House and be signed by the President (or passed over the veto). Congress could also comply with the special court's objection by amending the 1921 law that established the Comptroller General to make the office subject to removal by the President. The Comptroller General would then be an official of the executive branch. Lastly, the special court's ruling hinted that the constitutional foundations for many of the powers exercised by various independent agencies created by Congress through the years by successive legislation may be questionable. These agencies, such as the Federal Reserve Board, Federal Trade Commission, and Federal Communication Commission, have substantial influence and power. Such a broad judicial interpretation would have significant implications for the way government currently works.

The Supreme Court may or may not agree with the special court's ruling. The Supreme Court may also agree with the special court's ruling, but reject the special court's basis for reaching its decision and/or the broader

language in its opinion. It has set April 23 for oral arguments on the merits of the appeal. It is noteworthy that two hours have been allotted for these arguments, twice the normal allotment.

The special court postponed invalidation of the automatic cuts, pending appeal to the Supreme Court. Thus, until the Supreme Court decides otherwise, and since the Congress and President had not agreed on the necessary budget deficit reduction, the FY86 sequester order of $11.7 B was effective March 1. If the sequester order is upheld by the Supreme Court, and the rest of GRH is not affected by the Supreme Court's opinion, the cuts of $11.7 B remain in force. If the already implemented sequester order is not upheld and the rest of GRH is not affected by the Supreme Court's opinion, the same or substitute cuts would have to be devised by Congress through the alternative mechanism. Substitute cuts would be difficult to achieve and cause havoc with budgets of individual agencies. Thus, it is likely the current cuts would be implemented through the alternative mechanism.

The impact of invalidation of the Comptroller General's role on FY87 and later budgets is less certain. Many fear that without this club Congress and the President will face little pressure to achieve a good faith resolution of the deficit problem. Others reason that a Congress and President faced with the possibility of voting on and signing budget cuts (the alternative mechanism) which affect some programs while not touching others could face intense political pressure to accept an alternative reduction package that meets the GRH target, such as increasing revenues. Furthermore, debate over the FY87 budget has begun and much of it could occur before the Supreme Court rules. Thus, the long run impact of the constitutional questions on deficit reduction could be minimal.

In the discussion which follows, it is assumed the Supreme Court's decision will be confined to the Comptroller General's role. The rest of GRH will remain intact. It is also assumed that, even if the Supreme Court invalidates the Comptroller General's role, political pressure will dictate that the budget deficit be addressed.

## Immediate Impact

Since FY86's estimated deficit is $220.5 B, the automatic cuts under GRH for FY86 became effective March 1. The sequester order contained a 4.3% cut in nonexempted domestic programs and a 4.9% cut in nonexempted military programs. All commercial agriculture programs -- price supports, income supports, research, extension, soil and water conservation, crop reporting statistics, etc. -- are nonexempted, and were allotted the same 4.3% cut. USDA's cuts total $1.3 B (second largest of any agency with Department of Defense being first), which accounted for 20% of all cuts in domestic programs. Commodity Credit Corporation, the financing corporation for price and income supports, will absorb $824 million in cuts. Food stamp program payments were exempt but its administrative expenses were not.

GRH contains a contract sanctity provision. Once a contract, such as between a producer and Agricultural Stabilization and Conservation Service (ASCS), is signed it must be honored. Because contracts have been signed

for 1985 crop programs, a cut in FY86 funds is transferred to 1986 crop programs and incomes. Thus, it was deliberate and critical that ASCS chose March 3 as the commencement of sign-up for 1986 crop programs -- it was after the March 1 GRH trigger date. The bottom line for agriculture is fewer government services and lower government payments after March 1, which will most likely translate into a reduction in farm receipts for program commodities. (Editor's note - details about the impacts of GRH for 1986 programs appear in another article.)

## FY87 and Beyond

Looking beyond FY86, GRH should be viewed as both a policy statement and a budget reduction mechanism. The policy is that the federal deficit will be reduced, if not eliminated, and spending cuts will achieve part of the reduction. The key questions become: will outlay cuts instead of revenue increases be the exclusive means of budget deficit reduction; how large will the spending cuts be; and how will they be made.

### Revenue Enhancement

Size of the cuts will depend on the growth in revenue from existing sources over the next five years, the imposition of new taxes, and increased revenue from other sources such as oil import fees or additional user taxes. An example of the latter is President Reagan's proposal in his FY87 budget to increase the share of federal inspection and marketing costs paid by stockyards, grain companies, and others to 70% of projected FY87 expenditures of $832 million.

Another source of increased revenue and/or reduced federal expenditures is "privatization". This involves transferring services now provided by the public sector to the private sector, such as mass transportation, and/or selling government assets to the private sector. Examples of the latter in President Reagan's budget include Washington National Airport, federal transmission and power generation facilities (federal ownership and control of the associated dams are retained), and naval petroleum reserves.

Growth in revenue from existing sources will depend on how fast the economy grows. An important question is what will be the impact of reduced government spending. Some observers contend that the potential reductions are so large they will push the economy into a recession. It should be noted that the automatic cuts under GRH would be suspended if GNP growth falls below one percent for two consecutive quarters. At the least, unless the Federal Reserve Board develops an appropriate counter monetary policy, slower economic growth because of reduced federal spending or increased taxes implies smaller government revenues and larger deficits. Any reduction in the rate of increase of future revenue from existing sources in turn implies that the spending cuts necessary to achieve an FY91 deficit of zero would increase. There is also the unknown impact on economic growth of any change in the tax laws, whether they be revenue neutral or enhancing. However, other observers are already arguing that the budget deficits are exaggerated, given the decline in interest rates and oil prices.

Increased taxes remain the big unknown. At present, conventional political wisdom is that Americans will not support tax increases. Will that sentiment hold as budget cuts impact their services and lifestyle? Whatever the answer, the desire for shrinking government spending appears as strong and broadly based as the desire to balance the budget. Thus, the largest politically acceptable revenue increase at present appears to be a one-for-one tradeoff: each dollar reduction in federal spending matched by a dollar increase in revenue.

## Budget Cuts Scenarios

One scenario is that all cuts will occur through the automatic mechanism in GRH, whether implemented by the Comptroller General, the alternative special budget committee, or some substitute procedure. For FY87, the uniform reductions would be taken from FY86 appropriations minus the March 1, 1986 GRH cuts. The deficit associated with this level of outlays, adjusted for pay increases for military and civilian employees, is currently estimated by the Congressional Budget Office (CBO) to be $167 B, $23 B over the GRH target. The automatic cut in nonexempted domestic programs would be 6-9%. The real cut would also include inflation which CBO estimates at 3.2%. Also, relative to FY86 appropriations, these cuts would be in addition to the 4.3% March 1, 1986 cut. It should be noted that farm price and income support spending would not be subject to this triple cut because outlays are determined by provisions in the Food Security Act of 1985. Thus, the 6-9% cut would be made off the FY87 baseline for the farm bill provisions in effect during FY87. Lastly, to achieve a FY91 deficit of zero, recent budget evidence sugests automatic cuts totaling 25-40% over FY87-91 from FY86 outlay levels.

Political considerations suggest the general public will not permit deep cuts in some programs, such as guaranteed student loans, soil and water conservation, and mass transportation, while no cuts are made in other programs. The continuing economic crisis in American agriculture makes cuts in commodity program costs even more difficult. These considerations argue that the horizontal cuts of GRH will be broadened to include most, if not all, nonexempted and limited cut programs.

CBO's baseline projects $1,027 B in FY87 expenditures and a deficit of $183 B. The baseline is arrived at by assuming that FY86 programs and revenues are extended and adjusted for inflation and for increases in number of people eligible for current entitlement programs. A cut of $39 B is required to achieve the GRH deficit. Spreading this cut over FY87 expenditures, excluding interest payments of $145 B, yields a cut of 4.4% in all programs. Interest expense can not be cut because it is determined in the bond market, not by the government. Using CBO's estimate of inflation of 3.2%, nominal cuts in FY86 outlays would be 1.2%. Recent budget evidence suggests that over FY87-91, the across-all-programs cuts would be 10-20% in the projected FY91 current services budget. CBO's annual rate of inflation is projected over this period to fall between 3% and 3.5%.

As the impacts of the cuts on the American level of living become apparent, political considerations further suggest that some scenario pairing of outlay cuts and revenue increases discussed above will become increasingly likely. This scenario yields across the board cuts in all programs of 2.2% in FY87 current services and 5-10% by FY91. Furthermore, in addition to horizontal cuts, Congress and the President may implement vertical cuts. These will eliminate entire programs. For example, in his FY87 budget President Reagan proposed eliminating subsidies for Federal Crop Insurance over five years and immediately stopping direct financial assistance to farmers for soil and water conservation measures (technical assistance would be continued).

The paring of spending cuts and revenue increases was essentially the strategy employed by the Senate Budget Committee to reach the GRH budget target for FY87. Its budget limits defense spending increases to inflation, freezes most domestic programs at FY86 levels, and calls for revenue increases of $19 B. Many votes, numerous compromises, and hours of debate likely remain on the FY87 budget, so the Senate Budget Committee's budget will probably be altered, perhaps substantially.

## Other Impacts

The least discussed aspect of GRH are the many important changes in congressional budget rules. Some are designed to insure the budget process is finished by October 1, the beginning of a new fiscal year. For example, Congress must complete action on budget reconciliation by June 15. Reconciliation establishes overall spending limits for Congressional committees. Previously, Congress was required to complete action on reconciliation by September 25. It should be noted that Congress routinely missed this deadline.

Other rule changes allow a member of Congress to raise new points of order on legislation that requests spending authority in excess of budget targets and resolutions. Unless a point of order is overruled by the presiding officer or is voided by at least a three-fifth vote, the legislation is declared out of order and barred from further discussion. For example, a recent attempt to add $1 B for Farmers Home Administration loans for FY86 was sidetracked in the Senate because a point of order was raised that such an increase would cause the deficit to exceed the FY86 GRH deficit level. The Senate rejected an attempt to exempt this expenditure from GRH by a rather lopsided vote of 61-33. Lastly, of immediate interest, one new rule requires that during floor debate on the budget resolution any amendment which increases spending must be matched in the same amendment with equal subtractions elsewhere or by tax increases.

The new points of order, in conjunction with the greater emphasis being given to budget matters in general, portend a shift of power among Congressional committees. Specifically, the House and Senate budget committees are likely to gain power at the expense of authorization and appropriation committees, including the House and Senate agriculture committees and agriculture appropriation subcommittees.

One impact of this shift is that agricultural legislation will be affected through the budget reconciliation process. Reconciliation results in the instruction to committees on how much spending for programs under their jurisdiction is to be cut so as to comply with overall budget targets. These instructions can not dictate the cuts, but they do contain suggestions on how the cuts should be made. These suggestions are debated in Congress as if they were policy decisions although they are recognized as non-binding. The impact of reconciliation on agricultural legislation has already been felt. The shift from direct lending by Farmers Home Administration to guaranteed loans contained in the 1985 Farm Bill was in essence decided by the FY86 Congressional Budget Resolution, which was passed the end of July, 1985.

A second implication is that, if the earlier time table for budget legislation is adhered to, Congressional work on any 1990 legislation to succeed the Food Security Act of 1985 may have to begin in 1989 instead of 1990 as it traditionally would. The earlier start reflects the need to make the authorizing bill consistent with the reconciliation instructions for FY91. Otherwise, the authorizing (i.e., agriculture) committees could lose some control over farm policy.

A third implication is that, with the emergence of the budget committees as an agricultural political center, agricultural lobbying efforts will have to include not only the agriculture committees and agriculture appropriations subcommittees but also the budget committees. Furthermore, assuming the budget committees continue to work without subcommittees, agriculture will have to justify its agenda within the national agenda of the budget committees, specifically the budget.

A fourth implication is that the Farm Credit Amendments Act of 1985 appropriated no money for potential assistance of the Farm Credit System (FCS). Many experts expect FCS to need government aid within the next two years. The stricter budget points of order make it more difficult to enact appropriations for new programs. The points of order could be used to require that, in order to remain within the budget constraints for agriculture, spending for other agricultural programs would have to be reduced to offset appropriations for FCS. This possibility raises some potentially critical questions. Most importantly, if farm price and income supports are cut to make room for FCS relief, the number and degree of farmers in stress would increase, adding to the stress on lenders. Note, this offset requirement for funding new programs could potentially apply to any new program.

## Summary

In summary, political considerations and economic reality suggest that balancing the budget will probably involve a combination of horizontal and vertical spending cuts as well as revenue enhancement. Spending for all agriculture programs will likely decline and some may be eliminated.

However, given the urgency of the economic crisis facing American agriculture, it is unlikely to absorb a disproportion share of spending cuts. A reasonable guess based on the above discussion is a reduction of 5-15% in projected FY91 expenditures for agriculture based on current services. This budget includes the projected decline in farm program spending resulting from implementation of the Food Security Act of 1985. Thus, fewer government services will be provided to agriculture.

Another reasonable guess is that, compared with the 1985 legislation, cash receipts for program commodities over the next six years could average 2-4% lower per year simply because of GRH. One direct implication is that land prices will be further pressured, increasing financial stress on farmers and farm lenders. Using Ohio State University's crop enterprise budgets and a 3% real interest rate, a 3% drop in cash receipts could mean $40-60 lower land prices.

In the long term, it is changes in the rules of the House and Senate which may have the greatest impact on the relationship between government and agriculture. These rules change the way Congress conducts its business. At the least, agriculture will increasingly have to justify its agenda within the national priority to reduce the budget.

# THE FOOD SECURITY ACT OF 1985 AND GRAMM-RUDMAN-HOLLINGS: Their Potential Combined Effect on Agricultural Programs

by

Tom Fulton*

## INTRODUCTION

On September 4, 1985, H. J. Res. 372, a bill "increasing the statutory limit on the public debt," was submitted in the U.S. Senate by Senators Phil Gramm (R-Texas), Warren Rudman (R-New Hampshire) and Ernest Hollings (D-South Carolina). The deceptively titled measure contained much more than just an increase in the public debt. Adopted by the Senate on October 10, and the House of Representatives shortly thereafter, the measure came to be known as the Gramm-Rudman-Hollings (GRH) Balanced Budget Act of 1985.

Aside from increasing the public debt limit, GRH mandates annual reductions in the Federal budget deficit from over $200 billion (B) in fiscal year 1985 to $0 by 1991. GRH lays out a specific methodology to achieve that budget deficit reduction. Perhaps the most important aspect of the measure is the automatic cut that takes effect if an alternative budget package which meets the target is not agreed to annually by the President and Congress. The bill was signed by President Reagan on December 12, 1985, which followed his signing another measure waiving the requirement that GRH be printed on parchment before signing. A measure as momentous as GRH, it was noted, couldn't wait for the traditional printing on parchment required for other bills signed into law.

Federal spending has grown significantly over the past half decade. Agricultural legislation and the major tax reduction in 1983 provide prime examples of the sort of difficulty faced by the President and legislators in their attempts to trim Federal spending. With one-third of the Senate and the entire House of Representatives facing reelection every two years, legislators turned to GRH as a way to reduce the Federal deficit without having to make painful choices about which programs to reduce or about how to reinstate taxes.

In some respects however, the impact of GRH may have been overlooked by some legislators, particularly those who were deeply immersed in the complex issues surrounding the 1985 farm bill debate. Discussion on a 1985 replacement for the expiring Agriculture and Food Act of 1981 began February 1985 when the Administration submitted the Agricultural Adjustment Act of 1985 to the Congress. The debate on the complex farm issues did not end until the President signed the Food Security Act of 1985 into law on December 23, 1985.

Many legislators, intent on arriving at a consensus in a farm bill measure that could be supported by a majority of those in Congress, may have failed to perceive the impact GRH, in combination with the 1985 farm bill, would have on Federal spending for agriculture. While, on the one hand legislators were voting support of GRH to reduce the Federal deficit to $0

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by 1991 they were also laying the groundwork in the form of the 1985 farm bill to spend a record $140 B on agriculture and related programs over the same five fiscal years.

Although GRH exempts program reductions for many entitlement programs, such as Social Security, it does not exempt benefits to farmers eligible for payments through price and income support programs. Such provisions of the 1985 farm bill are essentially entitlement in nature. These provisions are designed to protect farm income while at the same time they increase the export competitiveness of U.S. agriculture overseas. Furthermore, as a result of the lower price support crop loan rate provisions of the 1985 farm bill, they are likely to reduce the market price of the commodity involved. The likelihood of lower market prices will probably increase participation in these commodity programs. Consequently, record high Federal commodity program expenditures are anticipated.

How successful will the twin goals of reducing the size of the Federal deficit through GRH and maintaining farm income in the 1985 farm bill then be? These have been goals shared by legislators concerned with agriculture and its expenditures since the 1981 farm bill fell under spending limitations imposed by the Omnibus Budget Reconciliation Act of 1982.

## FOOD SECURITY ACT OF 1985

In 1981, the Department of Agriculture estimated the four year (1982-85) fiscal cost of the 1981 farm bill's price and income provisions to be $12 B. Currently, cost estimates for price and income support provisions of the 1981 Act average in excess of $13 B annually based on OMB's rosey scenario macroeconomic assumptions for the period and the $2-3 B annual program cost experienced in the 1970's. Thus, in an effort to hold down outlays concurrent with debate on the 1985 farm bill and GRH, Congress adopted by a slender margin a spending reconciliation package, limiting spending for agriculture to $34.8 B over three fiscal years, 1986 through 1988 (the Senate voted 51 to 50 with the Vice President casting the tie-breaking vote).

The constraint of limiting spending for agriculture was difficult to adhere to even at the beginning of the farm bill debate. Agricultural price and income support program obligations for fiscal year 1986, one-third of the time period involved, came under the auspices of the 1981 farm bill because they were occurring during the 1985 crop year. Fiscal 1986 through 1988 cost estimates of the price and income support provisions of the 1985 farm bill were estimated at about $52 B. Taking into account actual program announcements and more recent supply and demand information costs may exceed the $52 B estimate (See Table 1).

Cost estimates of price and income support programs can ultimately be affected by completely unforeseen events. For example, futures prices for U.S. grains went up substantially after a nuclear power plant accident may have damaged a major growing region of the Soviet Union, then back down again. An event such as this serves to underscore the difficulty in forecasting government entitlement program costs for the future, particularly for agriculture.

Table 1. Potential Federal Outlays for Agricultural Price and Income Support Programs, Fiscal 1986 - 1988.

| Provision | 1986 | 1987 | 1988 | 1986-88 |
|---|---|---|---|---|
| | Billion $ | | | |
| Spending Resolution | (Did not specify year to year outlays) | | | 34.8 |
| Farm Bill Before GRH | 17.2 | 16.7 | 17.9 | 51.8 |

Provisions of the Food Security Act of 1985 were arrived at through extensive compromise. A case in point are the provisions pertaining to the target price and loan rates for the major commodities. For example, the target price for corn, a major component of Federal commodity income stabilization efforts, was frozen for crop years 1986 and 1987. After 1987 target prices are permitted to fall 2 percent in 1988, 3 percent in 1989, and 5 percent in 1990, or a total of 10 percent over the five-year life of the measure.

The loan rate for corn, on the other hand, a primary price support feature in the farm bill, was set at $2.40 per bushel for 1986 with possible future reductions based on market conditions but limited to 5 percent annually. However, within each year, the Secretary of Agriculture was given additional discretion to reduce the loan rate by up to 20 percent under the so-called Findley amendment. The Secretary, in fact, used the full 20 percent reduction option in the 1986 crop year with an adjusted loan rate of $1.92 per bushel for corn. The 1986 loan rate was down $.63 or 25 percent from the $2.55 per bushel level for 1985.

As a result of these program options available to the Secretary in the 1985 farm bill, the possibility exists, however slight, for the adjusted loan rate for corn to drop to $1.56 per bushel by 1990. If the maximum reductions permitted for the target and loan rate for corn were utilized, and the season average price of corn remained below the loan rate, the deficiency payment rate could amount to more than $1.10 per bushel for the 1986 through 1990 crop years (the highest deficiency payment rate for corn previously was in 1985 when it reached $.48 per bushel). The eventuality of world corn prices dropping low enough to necessitate a loan rate of $1.56 per bushel is considered highly unlikely by most experts assuming no highly unusual factors such as the variability of weather, supply, and demand. However, the authority for such level does exist in the bill. The potential cost exposure to the Federal budget of such an eventuality is considerable.

Giving the Secretary the discretion to lower the loan rate was the final result of an effort on the part of lawmakers to make domestic commodities more price competitive in the international export market. The effect on producers of such a lowered loan rate, which often acts as a price floor, however, would likely have been quite dramatic if Congress had not at the same time exempted that portion of the loan rate adjusted by the Findley or market enhancement provisions from the $50,000 payment limit.

Without the $50,000 exemption for the portion of the deficiency payment created through an adjustment to the announced loan rate, if the season average corn price remained below the adjusted loan rate, producers who chose to participate in the 1986 program would have been able to receive a deficiency payment of as much as $1.11 per bushel for corn. Under such conditions, corn producers experiencing a normal harvest of 110 bushels per acre would reach the $50,000 payment limit on just over 400 acres. According to data from the Census Bureau, farms with over 500 acres planted to corn represented 49 percent of the total corn produced in 1982.

Under provisions of the 1985 farm bill, producers participating in the 1986 corn program may receive up to $50,000 in deficiency payments for that portion of their production (permitted acreage times yield) times a deficiency payment rate that could amount to $.63 per bushel (target price of $3.03 minus the initial loan rate of $2.40). That part of the deficiency payment generated as a result of the application of the additional 20 percent reduction permitted under the Findley amendment is not subject to the $50,000 payment limitation (see example below).

At a deficiency payment rate of $.63 per bushel, the $50,000 payment limit would be exceeded by farms of roughly 720 acres of corn at the normal yield of 110 bushels per acre, an increase of approximately 75 percent. Unfortunately, Census Bureau data breakdowns do not permit an estimation of how much corn production would be accounted for at 720 acres.

## 1986 PROGRAMS

In January, the Department of Agriculture began initial announcements of the 1986 programs for dairy, wheat, feed grains, cotton, rice and the multitude of other programs encompassed by the Food Security Act of 1985. The announcements closely followed provisions of the Act (See Table 2).

Table 2: 1986 Target Price, Loan Rate, Adjusted Loan Rate 1/ for Wheat, Corn, Upland Cotton and Rice.

| Support Prices | Wheat | Corn | Upland Cotton | Rice |
|---|---|---|---|---|
| Target Price | $4.38/bu | $3.03/bu | $0.81/lb | $11.90/cwt |
| Loan Rate | $3.00/bu | $2.40/bu | $0.55/lb | $7.20/cwt |
| Adjusted Loan Rate | $2.40/bu | $1.92/bu | $0.44/lb 2/ | $4.11/cwt 3/ |

1/ Loan rate after application of Findley for Wheat and Corn, Plan A for Upland Cotton, and Market Enhancement provisions for Rice.
2/ Loan repayment rate equal to 80 percent of the loan rate for each quality of cotton.
3/ Loan repayment rate for 1985 crop farm stored loans in effect 4/15/86 for long grain rice.

Other 1986 program provisions announced by the Agriculture Department include the whole-herd buyout program for dairy and the requirements for entry into the long-term conservation reserve. For dairy, the support price was frozen at $11.60 per hundredweight (cwt) for 1986 but an assessment of dairy producers of $0.40/cwt began on April 1, 1986. The long-term conservation reserve is designed to take up to 45 million acres of cropland out of production for 10 to 15 years.

Five million acres (or as little as 3.75 million acres if the Secretary determined it not to be cost effective, with the foregone acreage added in later years) are to be placed into the reserve in 1986. One purpose of the reserve, aside from removing fragile and eroding cropland, was to reduce the total acreage planted to surplus crop production and thereby somewhat reduce Federal price and income support outlays.

## REDUCTIONS UNDER GRH

Although the 1985 farm bill was signed into law on December 23, 1985, and initial program provision announcements were made for many of the programs the following January, farmers were not permitted to signup for the programs until March 3, 1986, two days after the automatic cuts under GRH became effective. Signup for the 1986 programs for wheat, feed grains, and cotton were set for March 3 through April 11, rice was set for March 6 through April 11, compared to a signup period of October 15, 1984 though March 1, 1985 for the 1985 wheat and feed grains programs.

In comparison, the 1981 farm bill was signed December 22, 1981 and program signup for the 1982 programs was from February 16 through April 16. Under the contract sanctity provisions of GRH, once a contract was signed between a farmer and USDA the terms could not be altered for the life of the contract. Thus, setting the signup to begin March 3 meant that the payment provisions of those contracts will be subject to GRH provisions. It must be noted, however, that provisions of the 1985 farm bill are much more complex than those of the earlier measure and that more time was needed by the Agriculture Department to formulate programs for each of the commodities. Program cuts mandated by GRH would merely have been delayed not cancelled with signup before February 1, when the President's sequester order was issued.

Signup for the first bid session of the conservation reserve was set for March 3 through March 14. Dairy whole-herd buyout bids were accepted from February 10 through March 7, with the program mandated by law to begin April 1. The payments for both of these measures are exempt from cuts mandated by GRH.

From the outset there was a great deal of uncertainty as to how the Agriculture Department would impose the cuts mandated by GRH. The Agriculture Department's total FY1986 budget authority before passage of GRH was set at $60.2 B compared with a FY1985 budget of $62.9 billion. In compliance with a sequestration order (a directive not to spend money allocated) issued by President Reagan on February 1, the Agriculture Department announced on February 12, that it would, as required by the order, reduce FY1986 spending by $1.3 B equal to a 4.3 percent reduction only for those outlays subject to the provisions of GRH. Departmental programs exempted by GRH from reductions included Food Stamps, Child Nutrition, and Women, Infants and Children Special

Supplemental Food Programs. Also exempted were outlays occurring in 1986 from prior year obligations. Total exemptions for the Agriculture Department covered $38.6 B of spending authority.

In the February announcement, Agriculture Secretary Block said that $823 million would be cut from the 1986-crop year CCC programs. The $823 million reduction was the estimated reduction which would be achieved by applying the 4.3 percent cuts required by the President's sequester order. Some of the reductions will occur in FY1987 as many of the payments on 1986 crop programs will occur then. The Secretary stated that no reductions would be made in price support loans, purchase agreements and regular deficiency payments for the 1985 crops. Reductions of 4.3 percent would be made, however, in payments to producers made by check for commodity loans and deficiency and diversion payments. Commodity in-kind certificate payments would not be subject to the reduction unless producers elected to exchange the certificates for a check. Both advance and final payments would be subject to the reduction. The 4.3 percent reduction would be made after the maximum payment limit of $50,000 per producer had been applied. GRH included strict provisions for application of the reductions to CCC programs.

For wheat, feed grains, cotton and rice the 4.3 percent drop in the payment level to producers for commodity loans is in effect a 4.3 percent downward adjustment in the price support itself (See Table 3).

For corn, the adjusted loan rate for the 1986 program is set at $1.92 per bushel, the $2.40 mandated for 1986 in the farm bill less 20 percent. The maximum deficiency payment rate possible for corn in 1986 is $1.11 ($3.03 target price minus $1.92 loan rate). After applying GRH, the price support for corn is effectively adjusted downward to $1.84 per bushel and the maximum deficiency payment rate to $1.06 per bushel.

For example, a participating corn farmer with 500 base acres and a yield of 110 bushels per acre could expect to receive a regular loan of $1.92 per bushel. That loan would be subject to a 4.3 percent reduction under GRH. The calculation would be 400 permitted acres (20 percent of the farmer's 500 acre base or 100 acres would be set-aside) times 110 bushels per acre times $1.92 per bushel for $84,480 minus 4.3 percent, resulting in a check from the government of $80,847.36 if the entire amount were placed under loan.

The deficiency payment for the corn example above would be the target price of $3.03 minus the higher of the loan rate or the season average price. For this example let us assume the loan rate is the higher of the two. So, $3.03 minus $2.40 equals a deficiency payment rate of $.63 times 110 bushels per acre times 400 acres:

$3.03 - $2.40 = $.63 x 110 = $69.30 x 400 = $27,720 - 4.3% = $26,528

The adjusted deficiency payment rate would be calculated similarly assuming a farm price for corn of $1.92 per bushel or less and exempting the 10 percent Payment-in-Kind (PIK) from the 4.3 percent adjustment. The adjusted deficiency payment rate would be the loan rate of $2.40 minus the

Table 3: 1985 and 1986 Deficiency Payment Rates, 1/ Loan Rates, and Payment Limit Before and After GRH for Wheat, Corn, Upland Cotton and Rice

| Support Levels | 1985 Before Farm Bill | 1985 After Farm Bill | 1986 Before GRH | 1986 After 2/ GRH |
|---|---|---|---|---|
| Maximum Deficiency Payment Rates | | | | |
| Wheat ($/bu) | 1.08 | 1.08 | 1.98 | 1.89 |
| Corn ($/bu) | 0.48 | 0.48 | 1.11 | 1.06 |
| Upland Cotton ($/lb) | 0.237 | 0.237 | 0.37 3/ | 0.354 |
| Rice ($/cwt) | 3.90 | 7.79 4/ | 5/ | 5/ |
| 6/ Adjusted Effective Loan Rates | | | | |
| Wheat ($/bu) | 3.30 | 3.30 | 2.40 | 2.30 |
| Corn ($/bu) | 2.55 | 2.55 | 1.92 | 1.84 |
| Upland Cotton ($/lb) | 0.573 | 0.573 | 0.44 | 0.421 |
| Rice ($/cwt) | 8.00 | 4.11 | 5/ | 5/ |
| Effective Payment Limit | 50,000 | 50,000 | 50,000 | 47,850 |

1/ For this paper the deficiency payment and the repayment rate generated by applying the Findley loan rate adjustment or market rate repayment formulas are combined under the term "deficiency payment". That portion of the deficiency payment determined under these provisions are not subject to the $50,000 payment limit.
2/ Effective deficiency payment and price support rates.
3/ Deficiency payment rate as determined under Plan A/80 percent repayment rate for upland cotton.
4/ Deficiency payment rate for farm stored 1985 rice crop loans in effect for April 15, 1986 for long grain rice.
5/ The 1986 crop year loan rate for rice is $7.20 per cwt, the adjusted loan rate for rice, however, will be determined by weekly announcements of 1986 prices.
6/ Includes adjustments as a result of market price repayment formulas.

adjusted loan rate of $1.92 (less PIK) times 110 bushels per acre times 400 acres:

$2.40 - $1.92 - $.103 (PIK) = $.377 x 110 = 41.47 x 400 = $16,588 - 4.3% = $15,874.72 + ($.103 (PIK) x 110 x 400) = $20,406.72

The two payments could then be combined for a total deficiency payment of $46,934.72 for participation in the 1986 program under GRH and assuming no intervention by a higher farm price.

Under similar assumptions for the farm price relative to the Findley loan rates for wheat, the adjusted loan rate announced for the 1986 program is $2.40 per bushel which reflects the $3.00 per bushel specified by the 1985

farm bill less 20 percent allowed under the Findley amendment. The maximum deficiency payment rate possible for wheat in 1986 is $1.98 per bushel ($4.38 target price minus $2.40 loan rate). By applying the 4.3 percent reduction required in GRH, the maximum deficiency payment rate is decreased to $1.89 per bushel.

For upland cotton, the loan repayment rate for the 1986 program is set at $.44 per pound, or 80 percent of the $.55 per pound loan rate specified in the 1985 farm bill. The Department's choice of Plan A in the 1985 farm bill permits such a repayment in order to make U.S. cotton competitive in world markets. By applying GRH, the repayment rate for upland cotton is effectively reduced to $.42 per pound and the maximum deficiency payment rate to $.354 per pound.

The exception is rice. The 1986 loan rate for rice is $7.20 per cwt. There is, however, no 1986 loan repayment rate for rice as yet. The 1986 loan repayment rate for rice will be based on market prices in 1986. Beginning April 15, 1986, rice producers storing 1985 crop rice on farms are permitted to repay their 1985 loans at levels determined by the Agriculture Department to be competitive with world market rice price levels announced weekly unless the Secretary determines such an announcement should be made more or less frequently.

Rice producers who were not eligible or who did not apply for loans and had not marketed their rice by April 15, 1985, were given the opportunity to apply for compensating payments because of the sudden, sharp drop in prices. Since these payments were not provided for in the 1985 rice program contracts, payments received under this provision are subject to the 4.3 percent reduction under GRH.

The February announcement marked the first public comment by the Secretary that the 4.3 percent reduction in the dairy price support program would be implemented by reducing the CCC purchase price for cheese, nonfat dry milk, and butter by 4.3 percent since GRH requires reductions in cash outlays rather than in price support levels per se. This requirement would have reduced the effective manufacturers milk price support roughly $.55 per cwt. Dairy interests, instead, favored an increased assessment since a small reduction applied to all milk marketed could offset the large cut in the effective support price.

On March 20, President Reagan signed into law the Food Security Improvements Act of 1986 which, among other things, recinded the 4.3 percent cut in dairy purchase levels and substituted instead a $0.12 per cwt assessment on all dairy producers which would raise revenue in an amount roughly equal to the savings from a 4.3 percent cut for the period April 1 through September 30, 1986. The assessment was in addition to a $0.40 per cwt assessment on producers to fund the whole-herd buyout program.

## GRH REDUCTIONS IN 1987 AND BEYOND

Uncertainty is the keyword when looking at the potential impact of GRH on agricultural programs beyond FY 1986. As explained by Professor Zulauf, several unpredictable variables are included in the equation. First, the provisions of GRH would have to be found constitutional by the Supreme Court.

Second, Congress and the President would have to be unable to agree to a budget and an appropriation that meets the FY 1987 goal of reducing the Federal deficit to $144 B. Third, cuts to $144 B would have to be made from the deficit level as it exists when the cuts must take place. Such a deficit level would be affected by macroeconomic factors such as growth in the economy, inflation, oil and other prices, interest rates, and economic conditions in the world economy. Fourth, deficiency payments, the most significant item in terms of direct payments to farmers, to agriculture can be dramatically affected by additional unknown variables that affect commodity supply, demand and price. Each variable could have a significant impact on the future of the budget deficit, GRH, and the size of annual budget reductions that would have to be undertaken.

The President has proposed a FY1987 budget and each house of the Congress has developed budget resolutions which meet the $144 billion deficit target. Hence, if compromise can be found and appropriations enacted consistent with these, then no sequester order reduction would be required for FY1987. However, if the target is not met, and we assume a requirement to reduce $37.8 B from the Federal budget estimate of the Federal budget deficit of $181.8 B for FY1987 which takes into account the 4.3 percent reduction mandated for FY 1986, then a reduction of 17 percent would be required in eligible nondefense outlays including agricultural programs in order to reach a $144 B deficit. (see Table 4).

Table 4: Potential FY1987 Deficiency Payment Rates, 1/ Loan Rates, and Payment Limit After a GRH Reduction for Wheat, Corn, Upland Cotton, and Rice

| Support Payments | 1987 Before GRH | 1987 After GRH |
|---|---|---|
| Maximum Deficiency Payment Rates | | |
| Wheat ($/bu) | 2.10 | 1.74 |
| Corn ($/bu) | 1.21 | 1.00 |
| Upland Cotton ($/lb) | .376 | .312 |
| Rice ($/cwt) | 2/ | 2/ |
| Adjusted Effective Loan Rates | | |
| Wheat ($/bu) | 2.28 | 1.89 |
| Corn ($/bu) | 1.82 | 1.51 |
| Upland Cotton ($/lb) | .418 3/ | .347 3/ |
| Rice ($/cwt) | 2/ | 2/ |
| Effective Payment Limit | 50,000 | 41,500 |

1/ For this paper the deficiency payment and the repayment rate generated by applying the Findley loan rate and adjustment to market rate repayment formulas are combined under the term "deficiency payment." That portion of the deficiency payment determined under these provisions are not subject to the $50,000 payment limit.
2/ The adjusted loan repayment rate for rice is based on weekly world market prices prevailing at the time.
3/ Loan repayment rate; assumes plan A; 80 percent of statutory loan rate.

For the 1987 crop year, commodity program provisions will probably be announced and signup permitted much earlier than they were for the 1986 programs and in no case past the timetable specified in the 1985 farm bill. Signup for the 1987 crop year will occur with both farmers and USDA having a much clearer understanding of the implications faced under GRH. The Department would be forced to make cuts in the deficiency and $50,000 payment limit payments in the 1987 crop year programs under a mandate to reduce spending by 17 percent. The result would be to effectively adjust downward the price supports.

For crop years 1988 through 1990, assuming the same variables as for 1986 and 1987, and recognizing that the Office of Management and Budget assumes deficits that reach target levels, the percentage size of the cuts in deficiency payments and in the $50,000 payment limit would be similar to the cut that might be required in 1987. The size of the overall reduction, that is cutting the deficit from 1987's $144 B to $108 billion for 1988, would be $36 B or roughly the same as the reduction required for 1987.

Despite the potential of substantial cuts mandated by GRH and the 1985 farm bill (the loan rate for corn could be cut nearly in half in the 1987 crop year from crop year 1985's level), anticipated outlays for agricultural price and income support programs could still exceed the binding resolution spending cap passed by the Congress by nearly $11 B over the FY 1986-88 period.

# THE FOOD SECURITY ACT AND GRAMM-RUDMAN-HOLLINGS: IMPLICATIONS FOR DECISION MAKING IN AGRICULTURE

by
Beverly Fleisher*

The Food Security Act of 1985 and the Food Security Improvements Act of 1986, in conjunction with Gramm-Rudman-Hollings and proposed tax legislation, bode major changes in the ultimate source and magnitude of price risks which are important to agricultural producers. The changes wrought by these pieces of legislation will affect both agricultural producers and agricultural-policy makers. The legislative environment will shift our focus of concern from short term price variability to inter-year price variability and revenue levels relative to cash and economic costs. This shift brings to the fore questions not only about short run program participation decisions, but also about long run planning for the farm firm.

Long run planning will pose additional challenges because of these sources of increased uncertainty affecting the agricultural sector. In this paper we will discuss two of these sources, their impacts, and their implications for agricultural-firm decision makers, agricultural-policy makers, and others interested in policy. One source of uncertainty is the increased scope of discretionary power granted to the Secretary of Agriculture in the setting of loan rates and repayment terms. The second source of uncertainty is the impact of the new budget process and automatic sequestration levels introduced through the Gramm-Rudman-Hollings Balanced Budget Act of 1985.

## Initial Impacts of the Food Security Act on Producer Prices and Government Outlays

Any discussion of the impacts of the new farm legislation is incomplete without concomitant consideration of the new Balanced Budget Act of 1985, known to most of us as Gramm-Rudman-Hollings (GRH). Nevertheless, it is important to separate the influences of the farm legislation from those of GRH.

One of the discretionary powers accorded the Secretary by the Food Security Act is the option of invoking the Findley amendment. This amendment empowers the Secretary to lower loan rates for wheat and corn to 80% of the legislated loan rate if the legislated rate meets one of two conditions: (1) the legislated loan rate is above world market prices, or (2) the Secretary determines that a lower rate is necessary to equate supply and demand. It is envisioned that both of these conditions could prevail for the foreseeable future.

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As the gap between the target price and loan rate (and hence, market price in an era of high stocks) increases, participation in commodity programs becomes increasingly attractive. Even producers who may not want to participate are likely to find themselves required by their bankers to do so as a condition for receiving new, or refinancing old, short, intermediate, and long term loans.

With the gap between target and market prices widening, an increasing proportion of the revenue received by farmers will come from the government as deficiency payments. In 1985, when corn was between $2.35 and $2.55 per bushel, 10.97% of total corn revenues came from government payments. With wheat prices between $3.00 and $3.20 per bushel, 25.42% of wheat revenues came from government payments (U.S.D.A., January 1986, p. 2). These figures do not account for the additional effect that loan rates may have had on market prices. (The loan level for corn in 1985 was $2.55/bu; for wheat, it was $3.30.)

The proportion of receipts from government payments is expected to increase over the next two years. Market prices are likely to fall below the basic loan rate. Although the absolute level of payments may decline because of the effects of Gramm-Rudman-Hollings sequestrations, their proportion of receipts is expected to grow. The point at which the trend reverses is dependent upon the level at which commodity prices "bottom out". This, of course, will be determined by movements in world market demand and supply, stock depletion rates, and future use of the Findley amendment and GRH sequestrations.

## The Balanced Budget and Emergency Deficit Control Act of 1985

Perhaps the most talked about feature of the Gramm-Rudman-Hollings Balanced Budget Act of 1985 (GRH) is the automatic sequestration procedure triggered when budget outlays surpass maximum levels allowed to meet specified deficit reduction goals. This feature creates uncertainty with regard to the level of commodity payments to be disbursed. It makes farmers' program payments for each crop year partially dependent on U.S. and international economic conditions over which agricultural producers and agricultural-policy makers have little control.

However, equally important for the level of uncertainty faced by agricultural producers is the new budget resolution process set in motion by this bill. This will be discussed in more detail below.

This year's $11.7 billion mandatory reduction in outlays translates into a 4.3 percent across-the-board cut in most agricultural programs (food stamps, WIC, and FICN are exempt).

Invocation of automatic sequestration for next year's programs depends on the outcome of the current budget debate and the Supreme Court's ruling on the constitutionality of the sequestration procedures specified in the Act. The 1987 deficit limit is set at $144 billion. This effectively means that budget outlays that keep the deficit under $154 billion will not be subject to sequestration. But if the deficit is even one dollar over $154 billion, the budget will be subject to sequestration such that outlays are reduced to bring the deficit back to the $144 billion level. The "baseline" deficit (without policy changes)

projected by CBO for fiscal 1987, is over $180 billion (U.S. Congress, Congressional Budget Office, 1986). Using the figure of $184 billion, the uniform reduction for non-defense programs, including agriculture, would be 16.3%. [For each $10 billion increase in the excess deficit, the uniform reduction for non-defense programs is increased by about 4.5 percent.]

However, even this projection may be too optimistic. In developing their projection, CBO used several fairly optimistic economic assumptions. Among them were that GNP growth would continue to rise at a 3 to 3.5 percent level throughout the next five years. [The flash estimate of GNP growth for the first quarter of 1986 was 2%.] Inflation was assumed to hold at about 4.3% and interest rates were expected to continue to decline.

Changes in the economic outlook as well as changes in specific sectors can significantly affect the estimates of outlays, deficits, and required sequestrations. For example, large changes in 1986 outlay estimates came from changes brought about by the farm bill. The farm bill added between $2 and $3 billion in estimated 1986 outlays while lower commodity prices led to sharp upward revision of CBO estimates by an additional $7 to $8 billion. (ibid)

Even if the automatic sequestration process is ruled unconstitutional by the Supreme Court, major effects of Gramm-Rudman-Hollings will still be felt in agriculture as well as in the rest of the economy. The deficit reduction targets may be seen as an important goal and used as a performance measure by congressional constituencies. Therefore, the goal of budget control is likely to continue to be weighted quite heavily.

The new structure of the budget resolution process will continue even if the target levels are no longer mandated. The new budget process mandates that both the Congressional Budget Office (CBO) and the Office of Management and Budget (OMB) estimate the deficit for the next fiscal year and calculate the spending reductions necessary to eliminate the excess outlays above the allowed deficit. It is anticipated that, because of different goals and perspectives, the OMB and CBO projections will not be identical. If they are not, the economic assumptions used in the two models must be averaged and a new prediction must be made. Since this compromise step is almost inevitable, it may be in the interest of both OMB and CBO to initially over state their case so that their beliefs have more weight in the final outcome.

In addition, because cuts are made on a uniform percentage basis across all non-defense, non-exempt spending, there are added incentives for each agency to argue for a larger appropriation during preliminary budget negotiations. Even though possibly larger uniform percentage reductions could result, the absolute amount received may still be larger for any given department than if it had initially tried to maintain requests within deficit reducing bounds.

Both the deficit estimation process and the uniform application of outlay reductions push policy compromise and settlement to the last possible moment. A theory used to predict decision makers' responses to changes in the economy, known as the rational expectations model, argues that the period of policy debate imposes additional uncertainty on the decision maker since the scope of

possible future events is quite large. As decisions are made about policies, the decision makers' subjective risk will be greater than with some or all of the individual policy alternatives. However, once the new policy is decided upon, the level of risk may be reduced, particularly if the decision maker can count on the new policy for a significant length of time. However, we do not have to take recourse in a strict interpretation of the rational expectations model to surmise that extension of the period before policy coalescence under the spector of sequestrations will create uncertainty for decision makers.

## GRH's Implications for Agriculture

To explore the effect of GRH sequestrations on agricultural production firms, numerical examples have been constructed to show net returns/acre for two example farm firms. Each firm is assumed to be a single enterprise cash grain farm with 1,000 acres of program base in either wheat or corn. In developing the numerical examples aggregate price and cost of production data have been used. The yields are assumed to be national average yields for 1985. For wheat, the 1985 national average yield was 37.50 bushels per acre; for corn, the 1985 national average yield for corn was 116 bushels per acre. Of course, for producers enrolled in commodity programs, program payments are made only on that portion of realized yields which qualify as program yields. GRH sequestration levels used are 4.3% in 1986 and 16.3% in 1987.

No reference has been made to the firms' financial condition prior to the 1986-87 crop year. Because of the data and assumptions employed, no claims can be made that the conclusions are representative of the position of all farmers, or that we can discern anything about the distribution of impacts. Nevertheless, the numbers still portend that the current farm bill, in conjunction with Gramm-Rudman-Hollings, will have a major impact on many firms.

For the example firms used, Table 1 shows that, under realistic price assumptions, both corn and wheat producers would be able to cover their cash expenses over the next two crop years. Note that these returns/acre over cash expenses include only variable and fixed cash expenses which must be paid each year. These expenses include typical variable input expenses, general farm overhead, taxes and insurance and interest, as estimated by the Economic Research Service (ERS) for 1986. An "average" interest obligation was assumed under the fixed cash expenses included in this analysis. In the short run, fulfillment of cash obligations is all that is required for firm survival. Table 1 does not include paid and unpaid labor, capital replacement costs, returns to owned inputs, or returns to management and risk. The calculations also assume that producers do not react to lower expected prices by adjusting their use of variable inputs per planted acre.

Does this picture change if we also include capital replacement costs and the imputed cost of labor? Estimated capital replacement costs per acre of corn in 1986 are $41.26 while corn labor costs are estimated to be $15.06. For wheat, the figures are $24.57 for capital replacement costs and $10.34 for labor. (U.S.D.A., March 1986, p. 18) Table 2 shows that our example corn producers can cover labor and capital replacement costs in 1986 whether or not GRH

Table 1: Net returns/acre after fixed and variable cash expenses

| Crop year | Commodity | Assumed market price* | Net returns/acre non-participant | participant no GRH | participant GRH |
|---|---|---|---|---|---|
| | | $/bu | $/acre | $/acre | $/acre |
| 1986-1987 | Wheat | 3.50 | 35.82 | 34.41 | 33.55 |
| | | 3.00(a) | 17.07 | 33.08 | 31.72 |
| | | 2.40(b) | - 5.43 | 31.48 | 29.53 |
| | | 2.30(c) | - 9.18 | 31.22 | 26.72 |
| 1987-1988 | Wheat | 3.50 | 35.82 | 33.94 | 30.92 |
| | | 3.00 | 17.07 | 32.34 | 27.29 |
| | | 2.85(a) | 11.45 | 31.86 | 26.27 |
| | | 2.28(b) | -11.06 | 29.95 | 21.52 |
| | | 1.91(c) | -24.18 | 28.84 | 11.89 |
| 1986-1987 | Corn | 2.40(a) | 65.81 | 83.91 | 81.97 |
| | | 2.00 | 19.41 | 80.93 | 77.67 |
| | | 1.92(b) | 10.13 | 80.33 | 76.81 |
| | | 1.84(c) | 0.85 | 79.74 | 69.39 |
| 1987-1988 | Corn | 2.40 | 65.81 | 83.87 | 76.54 |
| | | 2.28(a) | 51.89 | 72.74 | 65.40 |
| | | 2.00 | 19.41 | 70.16 | 59.39 |
| | | 1.82(b) | - 1.47 | 68.51 | 55.24 |
| | | 1.52(c) | -36.27 | 65.75 | 27.96 |

sequestrations are in effect. In 1987, these costs can be covered if the market price remains above the adjusted loan level. The calculations show that wheat returns are insufficient to meet labor and capital replacement costs in either crop year whether or not GRH sequestrations are employed.

It is also interesting to compare current prices and loan rates to the prices required to cover full ownership costs. These ownership costs are based on the predicted 1986 economic (full ownership) costs published by U.S.D.A. (ibid, p. 18). For the example firms not participating in price and income support programs, the market price per bushel required to meet full ownership

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* (a) Basic loan level
  (b) Adjusted or announced loan level
  (c) Effective loan level

Table 2: Net returns/acre after fixed and variable cash expenses, capital replacement, and labor costs

| Crop year | Commodity | Assumed market price* | Net returns/acre: non-participant | Net returns/acre: participant, no GRH | Net returns/acre: participant, GRH |
|---|---|---|---|---|---|
| | | $/bu | $/acre | $/acre | $/acre |
| 1986-1987 | Wheat | 3.50 | 0.91 | - 0.50 | - 1.36 |
| | | 3.00(a) | -17.84 | - 1.83 | - 3.19 |
| | | 2.40(b) | -40.34 | - 3.43 | - 5.38 |
| | | 2.30(c) | -44.09 | - 3.69 | - 8.19 |
| 1987-1988 | Wheat | 3.50 | 0.91 | - 0.97 | - 3.99 |
| | | 3.00 | -17.84 | - 2.57 | - 7.62 |
| | | 2.85(a) | -23.46 | - 3.05 | - 8.64 |
| | | 2.28(b) | -45.74 | - 4.96 | -13.39 |
| | | 1.91(c) | -59.09 | - 6.07 | -23.02 |
| 1986-1987 | Corn | 2.40(a) | 9.49 | 27.59 | 25.65 |
| | | 2.00 | -36.91 | 24.61 | 21.35 |
| | | 1.92(b) | -46.19 | 24.01 | 20.49 |
| | | 1.84(c) | -55.47 | 23.42 | 13.07 |
| 1987-1988 | Corn | 2.40 | 9.49 | 27.55 | 20.22 |
| | | 2.28(a) | - 4.43 | 16.42 | 9.08 |
| | | 2.00 | -36.91 | 13.84 | 3.07 |
| | | 1.82(b) | -57.79 | 12.19 | - 1.08 |
| | | 1.52(c) | -92.59 | 9.43 | -28.36 |

costs are above loan levels but below the target price. The example wheat firm requires a market price of $3.75 per bushel to cover full ownership costs; the target price for wheat is $4.38 per bushel. The example corn firm requires a market price of $2.46 per bushel to cover full ownership costs; the target price for corn is $3.03 per bushel.

For firms participating in the commodity programs either with or without GRH sequestrations, the price per bushel required to cover full ownership costs is above the target price for both wheat and corn in both 1986 and 1987. This

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* (a) Basic loan level
  (b) Adjusted or announced loan level
  (c) Effective loan level

seemingly paradoxical result stems from the fact that, as a condition for participating in the commodity programs, producers must remove a portion of their base acreage from production. Thus fixed costs such as land are allocated over a smaller area of actual production.

## Implications for Agricultural-Firm and Agricultural-Policy Decision Makers

In the new policy environment, we may find that neither policy makers' nor farmers' reactions fit the expectations we have of them from past experience. This may be due, in part, to the fact that, at the same time the governments' ability and flexibility to assume risk are severely curtailed, the policy process itself has become a major source of uncertainty for both producers and policy makers. While commodity programs continue to provide a floor under producer prices and incomes, they may be doing so at levels which make inappropriate our conventional understanding of decisions made to manage risk.

From the producers' perspective, new concerns include the specific form that commodity programs will take during the next crop year. The wide range of discretionary powers accorded the Secretary of Agriculture by the new legislation make this concern a relevant one. But, perhaps more important is the question of Gramm-Rudman-Hollings sequestrations. Commodity program participants are now not only affected by how well their specific commodity places within intra-agriculture priorities and how agriculture as a whole fares within inter-agency priorities, but also general budget and deficit levels. The linkage of agriculture with the rest of the economy has, at once, become more explicit and the source of much uncertainty.

From the policy makers' perspective, continuing concerns include the lack of knowledge about producers most likely behavioral responses to changes in policy, the continuity of patterns of behavior as the source and level or risk changes, and the lack of specific knowledge about how programs affect subsectors of the agricultural economy and the sector as a whole. In addition, agricultural-policy makers, like producers, are faced with uncertainty about more general policies that affect the agricultural sector (i.e. Gramm-Rudman-Hollings) and the interaction between these policies and ones more specific to the sector.

In this environment, public and private decisions are heavily dependent upon expectations about each others' behavior. Many farm and policy decision makers are caught in a double bind in that they must make major strategic as well as tactical decisions to adjust to a changing environment at the same time that the information needed to form expectations about future events is at a premium. How, then, can policy makers, agricultural-policy analysts, and agricultural-sector managers make the best decisions or provide the best analyses in this new uncertain environment?

The first step is to recognize that the types of uncertainty and sources of risk facing agricultural-firm decision makers today are fundamentally different from those they faced in the 1960s and 1970s. During this previous period, the major sources of uncertainty facing producers came from variations in yields due

to weather and intra-year price variation in domestic commodity markets. These risks stemmed from continuation of previously observed patterns of variation. Thus, while decision makers may not have known the precise outcome of their decisions, they were familiar, from historical observation, with the likely range of possible outcomes and their probability of occurrence.

During the past few years, however, the effects of risks stemming from these familiar sources have, for many producers, been overshadowed by the effects of macro-economic, and indeed global, events beyond the control of decision makers. Many of these occurrences were unforeseen by both producers and policy makers. The reversal in land price trends is but one obvious example.

Producers and policy makers now face further unpredictable changes in the factors which affect the outcomes of their decisions. The current policy environment, for instance, is one in which agricultural decision makers can anticipate that the range and likelihood of possible events related to market prices and income from the combination of market receipts and government payments will not remain static. However, they do not necessarily have the information necessary to anticipate the precise form that these changes will take. Nevertheless, to make decisions in the current period, they must form some expectation about what is likely to occur.

Unfortunately, even those intimately involved in the agricultural-policy making process are not in the position to provide the necessary information. For example, it is widely assumed that the Findley amendment reduction in loan rates will occur during the next two crop years. At the same time, there is great uncertainty about possible GRH sequestration levels.

Thus, agricultural-firm decision makers are faced with uncertainty regarding the shape of future policies which will affect them. Just as producers may no longer be able to adequately predict policy parameters such as loan levels or sequestration rates because they are beyond the scope of past experience, policy makers may no longer be able to assume that producers will respond in the same manner as they have in the past. But, policies and program implementation guidelines are often predicated on certain beliefs about how decision makers will respond to small changes in the economic environment.

We have several reasons to believe that producers' responses will no longer follow historical patterns. One major factor is that, with the current financial stress experienced by many producers, and the likelihood of continued low commodity prices relative to full economic costs, many producers will be placed in the position of having to substantially reorganize their firms or leave agriculture. In addition, as we have discussed above, producers are facing a change not only in the level or quantity of risk and uncertainty they face, but also a change in the type or quality of this uncertainty.

The combination of these two factors may lead to responses which appear, in a narrow sense, to be "perverse". Consider, for example, a producer who is in a position such that this year's profits or losses will determine the financial viability of the farm. While we might anticipate that the producer would choose to minimize risk by enrolling in commodity programs and guaranteeing some

minimum level of return, this level of return may not be sufficient to move the firm away from imminent bankruptcy. The producer may decide, instead, to take a long shot and not enroll in the programs, hoping that the combination of additional production from acreage not required to be set aside and unforeseen events leading to favorable prices, will provide the returns necessary to save the farm. The producer may view the likelihood of bankruptcy from this course of action to be no more unsatisfactory than the almost certain bankruptcy which would result from enrolling in the programs.

Producers' responses may also differ from that indicated by previous behavior because of the expectations they hold about which of a particular set of of possible future events will prevail. For example, a wheat producer who expects GRH sequestrations to be near zero in 1987-1988 will attach a greater likelihood to continued firm viability than one who anticipates that sequestrations will exceed 16%. In addition, the very presence of increased uncertainty about what will happen in the future can also affect the attitude that decision makers take towards risks faced as part of even current, short term, decisions.

Agricultural-policy makers are also faced with additional uncertainty about how policy instruments beyond their control, such as Gramm-Rudman-Hollings, the tax code, and trade legislation, will interact with sector specific policies to change the environment in which agricultural producers must make decisions. Perhaps of equal importance to agricultural-policy makers are the political consequences of their decisions. The effects of political uncertainties may exacerbate the effects of economic uncertainty.

In reaction to these political and economic uncertainties, those concerned with agricultural policy must remain cognizant of the fact that previously assumed trends are no longer an adequate basis upon which to make decisions. Unfortunately, our aggregate models of the agricultural sector may have limitations in predicting the future course of actions taken by individual producers or their aggregate impact on the sector. Both rational and adaptive expectations models currently relied upon implicitly assume that behavior in the future is conditioned only by what has happened in the past.

Without better information about the future course of policy and macroeconomic events and more transparent models of likely producer responses to these changes, we must enlarge our scope of analysis to include a broader set of likely events and consequences. At the same time, our vigilance in reporting the results of our analyses, and the assumptions behind these analyses, must be increased. Only then can we provide agricultural decision makers with the information necessary to operate in this uncertain environment.

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COMMODITY PROGRAM UPDATE

by Leroy Rude*

| Commodity | 1983 | 1984 | 1985 | 1986 |
|---|---|---|---|---|
| Wheat | | | | |
| Target price ($ per bu) | 4.30 | 4.38 | 4.38 | 4.38 |
| Loan level ($ per bu) | 3.65 | 3.30 | 3.30 | 2.40 |
| Reserve loan level ($ per bu) | 1/3.65 | 1/3.30 | 1/3.30 | N.R. |
| Reserve release level ($ per bu) | 4.65 | 4.45 | 4.45 | N.R. |
| Acreage reduction (percent) | 15 | 20 | 20 | 22.5 |
| Paid land diversion (percent) | 5 | 10 | 10 | 6/2.5/5-10 |
| Payment-in-kind (percent) | 2/10-30 | 3/10-20 | -- | -- |
| Nat'l base acreage (mil acres) | 90.8 | 93.9 | 93.9 | 92.6 |
| Corn | | | | |
| Target price ($ per bu) | 2.86 | 3.03 | 3.03 | 3.03 |
| Loan level ($ per bu) | 2.65 | 2.55 | 2.55 | 1.92 |
| Reserve loan level ($ per bu) | 1/2.65 | 1/2.55 | 1/2.55 | N.R. |
| Reserve release level ($ per bu) | 3.25 | 3.25 | 3.25 | N.R. |
| Acreage reduction (percent) | 10 | 10 | 10 | 17.5 |
| Paid land diversion (percent) | 10 | -- | -- | 7/2.5 |
| Payment-in-kind (percent) | 2/10-30 | -- | -- | -- |
| Nat'l base acreage (mil acres) | 4/101.1 | 81.4 | 83.3 | 81.9 |
| Grain Sorghum | | | | |
| Target price ($ per bu) | 2.72 | 2.88 | 2.88 | 2.88 |
| Loan level ($ per bu) | 2.52 | 2.42 | 2.42 | 1.82 |
| Reserve loan level ($ per bu) | 2.52 | 2.42 | 2.42 | N.R. |
| Reserve release level ($ per bu) | 3.10 | 3.10 | 3.10 | N.R. |
| Acreage reduction (percent) | 10 | 10 | 10 | 17.5 |
| Paid land diversion (percent) | 10 | -- | -- | 7/2.5 |
| Payment-in-kind (percent) | 2/10-30 | -- | -- | -- |
| Nat'l base acreage (mil acres) | 4/101.1 | 18.4 | 19.9 | 18.8 |
| Barley | | | | |
| Target price ($ per bu) | 2.60 | 2.60 | 2.60 | 2.60 |
| Loan level ($ per bu) | 2.16 | 2.08 | 2.08 | 1.56 |
| Reserve loan level ($ per bu) | 2.16 | 2.08 | 2.08 | N.R. |
| Reserve release level ($ per bu) | 2.65 | 2.65 | 2.65 | N.R. |
| Acreage reduction (percent) | 10 | 10 | 10 | 17.5 |
| Paid land diversion (percent) | 10 | -- | -- | 7/2.5 |
| Nat'l base acreage (mil acres) | 4/19.1 | 11.6 | 13.2 | 12.4 |
| Oats | | | | |
| Target price ($ per bu) | 1.60 | 1.60 | 1.60 | 1.60 |
| Loan level ($ per bu) | 1.36 | 1.31 | 1.31 | .99 |
| Reserve loan level ($ per bu) | 1.36 | 1.31 | 1.31 | N.R. |
| Reserve release level ($ per bu) | 1.65 | 1.65 | 1.65 | N.R. |
| Acreage reduction (percent) | 10 | 10 | 10 | 17.5 |

Continued--

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| Commodity | 1983 | 1984 | 1985 | 1986 |
|---|---|---|---|---|
| Oats Cont. | | | | |
| Paid land diversion (percent) | 10 | -- | -- | 7/2.5 |
| Nat'l base acreage (mil acres) | 4/19.1 | 9.9 | 9.9 | 9.1 |
| Rye | | | | |
| Loan level ($ per bu) | 2.25 | 2.17 | 2.17 | 1.63 |
| Soybeans | | | | |
| Loan level ($ per bu) | 5.02 | 5.02 | 5.02 | N.R. |
| Upland Cotton | | | | |
| Target price (cents per lb) | 76.00 | 81.00 | 81.00 | 81.00 |
| Loan level (cents per lb) 5/ | 1/55.00 | 1/55.00 | 57.30 | 1/55.00 |
| Acreage reduction (percent) | 20 | 25 | 20 | 25 |
| Paid land diversion (percent) | 5 | -- | 10 | -- |
| Payment-in-kind (percent) | 2/10-30 | -- | -- | -- |
| Nat'l base acreage (mil acres) | 15.4 | 15.6 | 15.8 | 15.6 |
| Extra Long Staple (ELS) Cotton | | | | |
| Target price (cents per lb) 5/ | -- | 99.00 | 103.14 | 102.48 |
| Loan level (cents per lb) 5/ | 96.25 | 82.50 | 85.95 | 84.50 |
| Acreage reduction (percent) | -- | 10 | 10 | 10 |
| Nat'l marketing quota (1,000 bales) | 102 | -- | -- | -- |
| Nat'l allotment (1,000 acres) | 80.1 | -- | -- | -- |
| Nat'l base acreage (1,000 acres) | -- | 68.3 | 66.0 | 77.7 |
| Rice | | | | |
| Target price ($ per cwt) | 11.40 | 11.90 | 11.90 | 11.90 |
| Loan level ($ per cwt) | 8.14 | 1/8.00 | 1/8.00 | 1/7.20 |
| Acreage reduction (percent) | 15 | 25 | 20 | 35 |
| Paid land diversion (percent) | 5 | -- | 15 | -- |
| Payment-in-kind (percent) | 2/10-30 | -- | -- | -- |
| Nat'l base acreage (mil acres) | 4.0 | 4.2 | 4.2 | 4.2 |
| Flue-cured Tobacco | | | | |
| Loan level (cents per lb) | 5/169.9 | 5/169.9 | 5/169.9 | 143.8 |
| Effective marketing quota (mil lbs) | 892 | 840 | 763.8 | 692 |
| Burley Tobacco | | | | |
| Loan level (cents per lb) | 5/175.1 | 5/175.1 | 5/178.8 | 148.8 |
| Effective marketing quota (mil lbs) | 641 | 697 | 541.7 | 463 |
| Peanuts | | | | |
| Loan level, quota ($ per ton) 5/ | 550 | 550 | 559 | 607.47 |
| Loan level, non-quota ($ per ton) | 185 | 185 | 148 | 149.75 |
| Marketing poundage quota (1,000 tons) | 1,167 | 1,134 | 1,100 | 1,355.5 |
| Wool | | | | |
| Support level (cents per lb) 5/ | 153 | 165 | 173 | N.R. |

| Commodity | 1983 | 1984 | 1985 | 1986 |
|---|---|---|---|---|
| Mohair | | | | |
| Support level (cents per lb) 5/ | 462.7 | 516.9 | 465.0 | N.R. |
| Sugar | | | | |
| Loan level for raw cane (cents per lb) | 17.50 | 17.75 | 18.00 | N.R. |
| Loan level for refined beets (cents per lb) | 20.86 | 20.76 | 21.06 | N.R. |
| Honey | | | | |
| Loan level (cents per lb) | 5/62.2 | 5/65.8 | 5/65.3 | 64.0 |

N.R. = Not Released.

1/ Minimum allowed by law.

2/ Producers could choose any level of participation from 10 to 30 percent, inclusive. However, for upland cotton producers, the sum of the PIK acres plus the paid diversion acres could not exceed 30 percent of the base, therefore participants who elected to participate in the paid diversion would decrease their PIK acreage to 25 percent of the base. Producers also had the option of submitting bids to remove their entire crop-specific acreage base from production.

3/ Wheat PIK for 1984--wheat producers could choose any level of participation from 10 to 20 percent, inclusive.

4/ Combined totals: corn and sorghum; barley and oats.

5/ Determined by statutory formula.

6/ The 2.5 percent is mandatory for program participation. Winter wheat producers have two options for additional paid diversion -- 5 percent or 10 percent. Payments are made in the form of commodity certificates.

7/ Payments are made in the form of commodity certificates.

# AGRICULTURE - FOOD POLICY UPDATE: ADMINISTRATIVE DECISIONS

by Lewrene Glaser*

## GRAINS AND COTTON

1986 Programs--On December 31, USDA announced a loan rate of 85.40 cents per pound and a target price of 102.48 cents per pound for the 1986 crop of extra long staple (ELS) cotton. On January 13, USDA began announcing provisions of the 1986 price support programs for wheat, feed grains, upland cotton, and rice. The programs include required acreage reductions of 25 percent for wheat, 20 percent for feed grains, 25 percent for upland cotton, and 35 percent for rice. Included in these reductions is a 2 1/2 percent paid land diversion for wheat and feed grain producers. The 1986 loan rates (per bushel) will be $1.56 for barley, $1.92 for corn, $.99 for oats, $1.82 for sorghum, $1.63 for rye, and $2.40 for wheat. Target prices will be the same in 1986 as they were in 1985: $2.60 for barley, $3.03 for corn, $1.60 for oats, $2.88 for sorghum, and $4.38 for wheat.

On January 29, USDA set the 1986-crop rice national average loan and purchase rate at $7.20 per hundredweight and the target price at $11.90 per hundredweight. Further details of the wheat and feed grain programs were also released. Producers could request 100 percent of their diversion payments and 40 percent of their projected deficiency payments when they signed up (March 6 - April 25). Payment rates for the 2-1/2 percent paid land diversion have been established (per bushel) at $.57 for barley, $.73 for corn, $.36 for oats, $.65 for sorghum and $1.10 for wheat. The payment rate for the additional paid diversion option for winter-wheat producers is $2.00 per bushel, in accordance with the Food Security Act of 1985. Estimated per bushel deficiency payment rates are: barley, $.95; corn, $1.03; oats, $.45; sorghum, $.98; and wheat, $1.83. Seventy-five percent of the advance deficiency payments will be paid in cash during signup, and the remaining 25 percent will be paid as payment-in-kind (PIK) beginning May 1.

Producers will have from May 1 through September 30 to request the PIK portion of their advance deficiency and/or diversion payments. The Commodity Credit Corporation (CCC) will issue PIK certificates that are generic, meaning that the certificate will not be commodity specific. The certificates will be redeemable by producers for any regular, special or farmer-owned reserve loan commodity, and by commercial certificate holders for any CCC-owned commodity. Producers holding commodities pledged as loan collateral at signup must redeem that loan collateral (except peanuts and tobacco) to satisfy their PIKs. Producers who do not hold commodities under loan or whose commodities under loan are insufficient to satisfy their PIK entitlement may sell their certificates.

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On February 12, USDA announced a target price of 81 cents per pound for upland cotton. An advance deficiency payment of 7.8 cents per pound (30 percent of the projected total deficiency payment rate of 26 cents per pound) was paid in cash during signup (March 6 - April 25) to producers who request an advance payment. A 10 percent acreage reduction for ELS cotton was also announced.

On February 28, USDA announced that the crop acreage bases for wheat and feed grains will be determined based upon the average acres planted in such commodities in each of the 5 crop years immediately preceding the crop year for which the determination is made. For upland cotton and rice, most crop acreage bases will be determined on the same basis as for wheat and feed grains. However, when the planted acreage for 1 or more of the years of the 5-year base period is zero, such years must be dropped. The cotton and rice bases in these cases must not exceed the average of the planted acreage for 1984 and 1985. Cross compliance will not be required.

Additional provisions of the 1986 rice program were announced on March 4. Producers could request a cash advance of 30 percent of the projected total deficiency payment when they signed up for the program (March 6 - April 25). The advance was based on an estimated deficiency payment rate of $4.70 per hundredweight. Loans made under the 1986 program may be repaid at any time during the 9 month term of the loan at 50 percent of the loan level or the prevailing world market price for rice at the time the repayment is made, whichever is higher. Producers having 1985-crop loans outstanding on April 15 will be permitted to repay such loans at the world market price. Rice producers with crop loans due April 30 may extend those loans until June 30. The extension was made to give producers additional time to market their rice under the marketing loan program.

On March 20, Secretary Lyng announced several changes in the 1986 upland cotton, feed grain, rice, and wheat programs required by the Food Security Improvements Act of 1986. Additional payments in the form of commodity certificates will be made to producers whose 1986 farm program payment yield for a crop is reduced more than 3 percent below the 1985 program payment yield. Producers will not be eligible for payments under the 1986 commodity programs with respect to any nonprogram crops planted on underplanted acreage. (This is referred to as the 50/92 provisions of the 1985 Act.) However, a producer who planted a nonprogram crop on the underplanted acreage before February 26, 1986, or who entered into a contract to plant a nonprogram crop on the underplanted acreage before that date, would be eligible to earn a deficiency payment with respect to this acreage. Haying and grazing will be permitted throughout the year when requested by State Agricultural Stabilization and Conservation committees.

On March 21, USDA announced that winter wheat producers will be offered an optional 5 percent paid land diversion for their 1986 crops. This is an alternative to the 10 percent diversion mandated by the Food Security Act of 1985. The payment rate will also be $2.00 per bushel.

Producers of 1985-crop rice who wanted to receive program payments from USDA were to make their requests between April 15 and April 30. Producers could request payment for 1985-crop rice which, although eligible for a loan, was not pledged as loan collateral and was not the subject of a purchase agree-

ment. Producers could also request payment for 1985-crop rice that was ineligible to be pledged as collateral, if the rice had not been sold or delivered under a sales contract. The cash payments are computed by multiplying the quantity of rice by a payment rate equal to the difference between the loan level for the 1985 crop and the loan repayment rate. The repayment rate is based upon the prevailing adjusted world price for rice which was in effect on the date the application was made.

On April 24, Secretary Lyng announced additional details of the 1986 upland cotton program, including a loan rate of 55 cents per pound for the base quality, a loan repayment rate equal to 80 percent of the loan rate for each quality of cotton, and a prevailing world market price (adjusted to U.S. quality and location) of 33.62 cents per pound for Strict Low Middling 1-1/16 inch cotton. The adjusted world price is used only for the purpose of determining whether or not producers will be permitted to repay loans at a level less than the loan rate in order to make U.S. upland cotton competitive in world markets (as required by the Food Security Act of 1985). The adjusted world price (33.62 cents) is below the base loan rate (55 cents); therefore, USDA is setting the loan repayment rates equal to 80 percent of the loan rate for each quality of cotton.

Loan deficiency payments will be paid to eligible producers who agree to forego loan eligibility at a rate equal to the difference between the loan rate and the loan repayment rate. Such payments will be made on a quantity of upland cotton equal to the quantity otherwise eligible for loan but not to exceed a quantity determined by multiplying the individual farm program acreage by the farm program payment yield. The loan deficiency payment is not subject to the $50,000 payment limitation. Fifty percent of the loan deficiency payment will be paid in cash and 50 percent will be paid in commodity certificates redeemable in cotton. Producers who have upland cotton under loan on the day a loan deficiency payment is requested must make that loan collateral available to satisfy their commodity certificates.

A different commodity certificate will be issued to first handlers (persons regularly engaged in buying or selling upland cotton) who have entered into an agreement with CCC to participate in this program whenever, during the 1986 marketing year, the adjusted world price is below the loan repayment rate, and the Secretary determines that upland cotton is not competitive in world markets. The payment rate will be equal to the difference between the loan repayment rate and the adjusted world price. During the period required, payment will be made on the total quantity of U.S. upland cotton purchased by first handlers during such period for either domestic consumption or export.

Inventory protection payments will be made to anyone holding "free" stocks (stocks not under price support loan or owned by CCC) or raw upland cotton on August 1, 1986. Such payments will be made in the form of negotiable marketing certificates. Payments will be made as soon as possible after August 1 on the total quantity of "free" stocks, taking into account the 1985 loan rate plus accrued carrying charges and the adjusted world price in effect on August 1, 1986. Commodity certificates issued to first handlers or to those holding "free" stocks will be negotiable and issued in the monetary amount due. The certificates will be redeemable only for upland cotton.

Also on April 24, USDA issued the formula it will use to determine the prevailing world market price for upland cotton. The price, adjusted to U.S. quality and location, will be announced weekly as soon as possible after 4:00 p.m. Eastern time each Thursday beginning July 3, 1986, continuing through the last Thursday of July 1991. The price will be determined as follows:

1. The prevailing world market price for upland cotton will be based upon the average of the quotations for the preceding Friday through Thursday for the five lowest-priced growths quoted for Middling (M) 1-3/32 inch cotton C.I.F. (cost, insurance, freight) northern Europe (Northern Europe price).

2. The Northern Europe price will be adjusted to average U.S. spot market location by deducting the average difference during the preceding 156-week period, excluding price quotations for June, July, and August of each year, between: (a) the average of the price quotations each Thursday for U.S. Memphis territory and California/Arizona M 1-3/32 inch cotton C.I.F. northern Europe, and; (b) the average of the price quotations each Thursday in the designated spot markets for M 1-3/32 inch cotton.

3. The price derived in item 2 will be adjusted from M 1-3/32 inch to Strict Low Middling (SLM) 1-1/16 inch cotton by deducting the difference between the announced U.S. price support loan rates for M 1-3/32 inch and SLM 1-1/16 inch cotton.

4. The price derived in item 3 will be adjusted to average U.S. location by deducting the difference between the average loan rate for SLM 1-1/16 inch cotton in the spot markets and the announced U.S. loan rate for SLM 1-1/16 inch cotton at average U.S. location.

On April 25, USDA released the formula for determining the prevailing world market price for rice. The price, adjusted to U.S. quality and location, loan rate basis, will--to the extent practicable--be announced each Tuesday. The prices will be effective upon announcement and will remain effective until the next world price is announced. The steps of the formula are as follows:

1. USDA will review prices at which rice is being bought and offered for sale in world markets and weight prices. The resulting prices will be adjusted to U.S. equivalent values per hundredweight for U.S. grade No. 2, four percent broken kernels, separately for long, medium and short grain milled rice. This adjustment, where applicable, will include consideration of credit concessions, barter sale, government-to-government sales, or special pre- or post-milling processes.

2. The prevailing world market price for a class of rice, adjusted to U.S. quality and location, will be adjusted by deducting from the calculated price the estimated national average costs associated with (a) the use of bags; (b) the transfer of rice from mill location to FOB vessels with such costs including, but not limited to, freight, unloading, wharfage, insurance, inspection, fumigation, stevedoring, interest, banking charges, storage and (c) administrative costs related to the export of rice.

3. The FOB mill price will be adjusted to reflect the market value of the total quantity of whole kernels contained in milled rice by deducting the value of broken kernels. The value of broken kernels will be based upon the estimated domestic market value all sizes of broken kernels.

4. The total whole kernel market value will be adjusted to reflect the per pound market value of whole kernels by dividing the price by the quantity of whole milled kernels contained in the milled rice.

5. The price will be adjusted to reflect the market value of whole kernels contained in 100 pounds of rough rice by multiplying the price by the estimated national average quantity of whole kernel rice by class obtained from milling 100 pounds of rough rice.

6. The market value of whole kernels will be adjusted to reflect the prevailing world market value of rough rice by adding to it the domestic market values of bran and broken kernels contained in the rice and deducting an estimated cost of milling rough rice and transporting the rice from farm to mill locations.

7. The prevailing world market price, rough rice basis, will be adjusted to a whole kernel loan rate basis by deducting the estimated domestic market value of broken kernels contained in the rice and dividing the resulting value by the estimated national average quantity of milled whole kernels produced in milling 100 pounds of rough rice.

Gramm-Rudman-Hollings Reductions--Secretary Block announced on February 12 that USDA will begin spending reductions in its commodity programs on March 1 to comply with President Reagan's February 1 sequester order issued under the Balanced Budget and Emergency Deficit Control Act of 1985 (Gramm-Rudman-Hollings). The order calls for a USDA spending reduction of $1.3 billion for fiscal 1986, equal to a 4.3 percent reduction in those USDA outlays subject to provisions of the Act. The reductions will be allocated equally on a pro-rated basis among these programs. Reductions of $823 million will made in 1986 CCC programs. No reductions will be made in price support loans, purchase agreements and regular deficiency payments made for 1985 crops (except for the new 1985-crop rice marketing loan and inventory reduction payments mandated by the Food Security Act of 1985). Target prices and loan rates will not change for 1986 crops. Also, payments made in-kind or by negotiable commodity certificates will not be subject to reduction. Reductions of 4.3 percent will apply, however, to checks paid to producers for commodity loans, deficiency and diversion payments for 1986 crops, and to payments for certificates that producers redeem for cash. Both advance and final payments will be subject to the reduction. The reductions will be made after the maximum payment limitation of $50,000 per producer has been applied.

Cross Compliance for 1987--On March 25, Secretary Lyng proposed that limited cross compliance be required for 1987 price-support and production-adjustment programs for wheat, feed grains, upland cotton, and rice. Lyng also said he intends to propose that producers not be given the option of adjusting their crop acreage bases by up to 10 percent of the farm acreage base. Limited cross compliance would require that, as a condition of eligibility for loans, purchases or payments for a wheat, feed-grain, upland cotton, or rice crop, the acreage planted for harvest on a farm in other commodities, including ELS cotton, may not exceed the crop acreage base of such commodities.

1985-Crop Deficiency Payments--Eligible wheat farmers received approximately $1.5 billion in deficiency payments for their 1985 crop. Deficiency payments of about $150 million and $10 million, respectively, were also made to eligible barley and oats producers. These payments were based on rates of $1.08 per bushel for wheat, 52 cents per bushel for barley, and 29 cents per bushel for oats--the differences between the target prices and the loan rates. Corn and sorghum producers received an estimated $2.6 billion in

deficiency payments for their 1985 crops. Eligible producers were paid at a rate of 48 cents per bushel for corn and 46 cents per bushel for sorghum, also the difference between target and loan. Eligible upland cotton farmers received deficiency payments at the rate of 23.7 cents per pound on their 1985 production, the target price minus the national average loan rate. Rice producers, if eligible, received approximately $385 million in deficiency payments for their 1985 crop. The payment rate of $3.90 per hundredweight was based on the difference between the target price and the loan rate.

Grain Inspection and Weighing--On December 6, 1985, USDA issued changes in its regulations concerning official inspection and weighing of grain. The revisions delete the former provisions for contracting with individuals for obtaining official grain samples for reinspection or appeal of initial inspection results. Also, the revisions change the regulations regarding insect-infested grain in railcars or trucks with permanently closed tops.

Special Producer Storage Loan Program--USDA announced on December 11, 1985, that producers with maturing grain loans under the Special Producer Storage Loan Program will be given the opportunity to extend their loans for 1 year. Advance storage payments, at the same rate applicable to the farmer-owned reserve, will continue to be made on the extended loans.

Marketing Order for Hops Terminated--On December 31, 1985, USDA terminated Marketing Order 991 governing the marketing of domestically produced hops. The decision to terminate the order was reached after analysis of the industry's problems and review of the record of a public hearing held to consider amendments to the order. The order has been in operation since 1966.

Grain Record-Keeping Requirements Amended--On January 16, USDA's Federal Grain Inspection Service announced it is implementing a significant reduction in federal record-keeping requirements by grain merchandisers and elevator owners and operators. The new rules eliminate complex preparation and maintenance requirements and prohibit the unauthorized disclosure of business information.

1985-Crop Loans May Enter Farmer-Owned Reserve--USDA announced on February 10 that producers who have maturing 1985-crop wheat and feed grain CCC loans may place the loans in the farmer-owned reserve program. The reserve loans will be made for 3 years and advance storage payments will remain at 26.5 cents per bushel for wheat, corn, barley, and sorghum and 20 cents per bushel for oats. The per bushel release prices also remain unchanged at $4.45 for wheat, $3.25 for corn, $1.65 for oats, $2.65 for barley, and $3.10 for sorghum.

Emergency Storage Space--On March 5, USDA announced that federal and state licensed warehousemen approved under a Uniform Grain Storage Agreement may request approval from the CCC to store grain in emergency facilities. Warehousemen operating under a federal license must have approval from USDA's Kansas City Commodity Office prior to using emergency storage. State licensed warehousemen must have approval of the state licensing authority and comply with its regulations before seeking approval from the CCC. Grain in emergency facilities must be removed by March 31, 1987.

Cotton Assessment Regulations Revised--USDA revised its regulations for collecting assessments levied on cotton producers under the Cotton Research and Promotion Act, effective March 21. The revisions make new enforcement measures available to the Cotton Board if collecting handlers fail to transmit assesssments. Assessments are collected by first handlers of cotton, who are required to transfer funds they collect to the Cotton Board within a prescribed time frame. Should handlers fail to punctually transfer the funds, the revised regulations provide for establishment of escrow accounts for the deposit of assessments collected, interest charges on past due accounts, and late payment charges on seriously delinquent accounts.

Standards for Grain Weighing Equipment--Effective March 31, USDA's Federal Grain Inspection Service (FGIS) adopted the requirements of the 1985 edition of the National Bureau of Standards' Handbook 44, "Specifications, Tolerances, and Other Technical Requirements for Weighing and Measuring Devices," for grain weighing equipment. Handbook 44 requirements include tolerances, classing systems, and other criteria applicable to official grain weighing equipment. FGIS also revised the tolerances for scales, near-infrared (NIR) analyzers, and Kjeldahl analyzers to update the regulations to reflect current commercial standards.

Increase in Cotton Service Fees Proposed--On April 14, USDA proposed raising the fees charged for cotton classing and other services to producers. Fees charged producers for classing cotton will be increased to $1.08 per bale for the 1986 crop, up from $1.05. An additional fee for optional High Volume Instrument classing will be raised 50-cents per bale and added to the proposed fee of $1.08 for manual classification. The current discount of five-cents per bale where fees are centrally billed through voluntary agents will continue in effect. USDA is also proposing fee increases to cover increased costs for other cotton classing services, cotton linters grading, and the supervision of cottonseed grading. In addition, fees will be raised for cotton standards, cotton linters standards, and calibration cotton standards.

Replacement Warehouse Receipts--On April 28, USDA announced that producers using warehouse-stored commodity loans to satisfy commodity certificate earnings will be given the option of either obtaining replacement warehouse receipts or receiving commodity certificates under the CCC's commodity certificate program. The option will be offered when the commodity certificate value will satisfy less than the quantity shown on the warehouse receipt. Producers with both farm-stored and warehouse-stored loans will be given the option of either obtaining replacement warehouse receipts or using farm-stored loans to satisfy commodity certificate earnings.

## OILSEEDS AND TOBACCO

1986 Peanut Poundage Quota--On January 8, Secretary Block announced a national poundage quota of 1,355,500 short tons (2,711 million pounds) for the 1986 crop of peanuts, up 255,500 short tons (511 million pounds) from the 1985 level. As required by the Food Security Act of 1985, the national poundage quota for the 1986 crop of peanuts is equal to the quantity of peanuts estimated to be devoted to domestic edible, seed and related use in the 1986 marketing year, beginning August 1, 1986. The 1986 national pound-

age quota will be allocated to each state based on each state's percentage share of the 1985 poundage quota. Any increase in a state's poundage quota will be allocated equally among farms producing quota and nonquota peanuts.

New Peanut Regulations Proposed--On April 1, USDA issued proposed regulations for determining state and farm poundage quotas for the 1986 through 1990 peanuts crops. Many rules remain unchanged from the 1982-85 programs, but certain changes are required by the Food Security Act of 1985. The amendments include provisions for allocating peanut poundage quotas in certain instances to farms on which only nonquota peanuts were produced in the past. Those nonquota farms eligible for such allocations are only those farms on which peanuts were produced in 2 out of the 3 years preceding the year in which a quota is being made. Such farms will be eligible for allocations due to increases in state quota resulting from: an increase in the national quota, quotas reduced for nonproduction, and quotas that have been released from other farms.

Poundage Quotas Approved--Also on April 1, USDA released the final results of a referendum held January 27-31 that show peanut producers have approved poundage quotas for the 1986 through 1990 crops. Of the 21,456 votes cast, 20,904 or 97.4 percent, favored quotas and a loan program for the next 5 crop years. Two-thirds of the farmers voting must favor continuing the peanut program for quotas to remain in effect.

CCC Peanut Sales Policy--On April 22, USDA amended its sales policy for the 1986-1990 crops of additional peanuts owned or controlled by the CCC when the peanuts are sold for export edible use. Additional peanuts are those grown in addition to a farm's poundage quota or those grown on a farm without a poundage quota. The 1986 crop will be sold by the CCC for export at no less than $400 a ton. The sales policy for the 1987-90 crops will be announced before the beginning of each marketing year. Before the amendment these peanuts would have sold at the lower of $400 a ton or 102 percent of the average contract price for the top grade, known as segregation 1.

Tobacco Inspection Fees Increased--On November 4, 1985, USDA increased the fees it charges for voluntary tobacco inspection performed by department personnel. The hourly rate for tobacco inspection during regular working hours increased from $20.45 to $22.30. Fees for overtime service increased from $24.40 to $26.60 an hour and service performed on Sundays and holidays was raised from $30.50 to $33.35 an hour.

1985-Crop Burley Tobacco--On November 15, 1985, USDA reduced the price support level for the 1985 crop of burley tobacco from $1.788 to $1.488 per pound and reduced the no-net-cost assessments to 4 cents per pound, down from 30 cents per pound.

1985-Crop Virginia Fire-Cured and Sun-Cured Tobacco--USDA issued grade loan rates for Virginia fire-cured, type 21, and Virginia sun-cured, type 37, tobaccos on November 20, 1985. The schedule for fire-cured tobacco is based on the average support level of $1.188 per pound, the same as the 1984 support level. Grade loan rates range from 62 cents to $1.98 per pound. The schedule for sun-cured tobacco is based on the average level of support of $1.094 per pound, also the same as the 1984 level. Grade loan rates range from 65 cents to $1.98 per pound. On November 29, USDA reduced the

no-net-cost assessment for Virginia fire-cured tobacco from 10 cents to 5 cents per pound.

1985-Crop Ohio, Wisconsin Cigar Tobacco--USDA announced the no-net-cost assessments for 1985-crop filler and binder tobaccos on December 17, 1985. The assessments are 10 cents per pound for Ohio filler (types 42-44), 3 cents per pound for northern Wisconsin binder (type 55) and 2 cents per pound for southern Wisconsin binder (type 54). The 1985-crop grade loan rates were announced on December 18. Rates for Ohio filler tobacco range from 50 cents to $1.00 per pound, for northern Wisconsin binder from 46 cents to $1.20 per pound, and southern Wisconsin binder from 15 cents to $1.04 per pound.

New Law Changes Tobacco Support Program--On April 8, USDA announced that the Combined Omnibus Budget Reconciliation Act of 1985, signed into law by President Reagan on April 7, cancels the flue-cured and burley tobacco quotas previously announced and makes several other significant changes in the tobacco program. Under the new amendments to the Agricultural Act of 1938, flue-cured and burley quotas for 1986 and future years will be based on three factors: intended purchases by cigarette manufacturers, average annual exports for the preceding 3 years, and the amount of tobacco needed to attain reserve stock levels. Quota reductions for flue-cured and burley will be limited to 6 percent per year for 1986-89 and to 10 percent per year for 1990-93. The new law also lowers the flue-cured support price for the 1986 crop to $1.438 per pound from $1.717 and freezes the burley support price at $1.488, the 1985 level.

1985-Crop Puerto Rican Tobacco--On April 18, USDA issued a schedule of grade loan rates for 1985-crop Puerto Rican (type 46) tobacco based on an average price support level of 74 cents per pound, the same level as 1984. The grade loan rates range from 26 cents to 80.5 cents per pound. As a condition of eligibility, producers of Puerto Rican tobacco must contribute 52 cents per pound for tobacco marketed to a no-net cost tobacco account.

Tobacco Not Exempt From Gramm-Rudman-Hollings--USDA announced on April 21 that payments made by the CCC under the 1986 tobacco price support programs are subject to the reductions required by the Balanced Budget and Emergency Deficit Control Act of 1985 (Gramm-Rudman-Hollings). The sequestration order issued February 1 by President Reagan specified a 4.3 percent reduction in nonexempt Federal outlays.

1986 Quotas for Flue-Cured and Burley Tobaccos--On April 25, USDA issued the 1986 national marketing quotas for flue-cured and burley tobaccos of 727 million pounds and 493 million pounds, respectively. Both are 6 percent below the 1985 quotas, the maximum permitted by the Combined Omnibus Budget Reconciliation Act of 1985.

Imported Tobacco Rules Proposed--Also on April 25, USDA proposed rules for testing imported flue-cured and burley tobacco for prohibited pesticides and for identifying the importing manufacturers or other end users. The rules are mandated by the Food Security Act of 1985 and require user fees to cover the costs of testing for pesticides.

Citrus Canker Regulations--On December 19, 1985, USDA changed it's citrus canker regulations to allow Florida citrus seed to move from Florida to other states, Florida citrus fruit to move from Florida to northern Louisiana, and citrus fruit from other areas to move through Florida to other states. Citrus previously eligible for shipment may continue to move. Movement of Florida citrus has been restricted since September 1984, shortly after a strain of citrus canker, a destructive foreign citrus disease, was found in a Florida citrus nursery. To be eligible for interstate movement, citrus must come from a grove free of citrus canker and must undergo disinfection. Also, it must be accompanied by a limited permit and be moving to a noncitrus producing area.

Mango Imports--On February 19, USDA issued regulations to again allow mangoes from Central America, the West Indies, Brazil and Mexico to be imported into the United States. These mangoes have been prohibited entry since September 17, 1985, because the pesticide ethylene dibromide (EDB), the only approved effective means of destroying tropical fruit fly larvae in mangoes, has not been permitted to be used since then. Prior to September 17, treatment of mangoes with EDB in the country of origin was required before they could be imported, but on that date, the Environmental Protection Agency (EPA) ruled that residues of EDB in mangoes would no longer be allowed. This ruling effectively eliminated importation of mangoes from countries infested with tropical fruit flies since no alternative treatments are available. EPA reestablished a tolerance of .03 parts per million of EDB for mangoes on February 14, which made it possible for USDA to reissue the regulations for importation of mangoes. These regulations describe proper fumigation standards and how the required USDA import certificates should be obtained. The fumigiation must be done under USDA supervision, and fumigation facilities must be approved by USDA.

Fresh Fruit and Vegetable Grading--On March 12, USDA increased the fees it charges to inspect and grade fresh fruits and vegetables at destination markets. The fees are being raised to cover increased costs of providing the services. The new fee schedule raises fees for examining both the quality and condition of a product, or its condition only. Users of the service will be charged $50 to inspect more than half a carlot of a product for quality and condition, $42 for each half carlot equivalent or less of an individual product, and $100 maximum for each carlot equivalent when more than one kind of product is involved. A carlot equivalent is approximately 40,000 pounds. For condition inspection only, producers will be charged $42 when the volume of a product is in excess of one-half carlot and $38 for each half-carlot or less of an individual product. A maximum of $84 will be changed when more than one kind of product is involved. Rates for inspection on a per hour basis, small package inspection fees and the inspection charges for peanuts, pecans and other nuts will also be raised.

Inspection Regulations for Processed Fruits--On April 3, USDA proposed revisions in its regulations covering the inspection and certification of processed fruits, vegetables and related products. The major amendments would revise sampling plans by limiting the lot size to correspond to a sample size with a maximum of 29 units, revise and readjust the schedule of fees and charges for inspection, provide for control of labels bearing

approved grade or inspection marks when a contract for services is cancelled, and revise the approved identification section which allows for the use of the official sample mark.

Standards for Frozen Leafy Greens--USDA proposed on April 8 to revise the voluntary standards for frozen leafy greens. The proposed rule, recommended by the American Frozen Food Institute, would change the allowance for blemishes in leaf style spinach and permit a larger blemish area equal to the allowance in previous frozen spinach standards.

Standards for Pistachio Nuts--On April 11, USDA proposed voluntary grade standards for the in-shell pistachio nut industry. The grade standards would provide the industry with a common trading language and enable it to determine levels of quality and value. The proposal would establish three grade levels: U.S. Fancy, U.S. No. 1, and U.S. No. 2. Similar standards are used extensively by other segments of the domestic fresh produce industry. The standards were requested by the California Pistachio Association.

Marketing Order for Red Tart Cherries Terminated--Secretary Lyng approved the termination of the federal marketing order for red tart cherries, effective August 31, after growers voted in favor of ending the order. In a referendum conducted March 10-20, 51 percent of the growers voted to terminate the order.

## SUGAR AND SWEETENERS

Honey Promotion Order--On January 29, USDA recommended issuing a national honey research, promotion, and consumer information order. Under the order, producers and importers of 6,000 or more pounds of honey and honey products per year would finance research, promotion and information activities through production and import assessments. The assessment rate would be 1 cent per pound for the first year of the order and could not be increased more than 1/2 cent per year thereafter. A maximum rate would be set a 4 cents per pound. The Honey Board--a 13-member group of producers, packers, importers and a public representative--would administer the program. If USDA makes a final decision to establish the order, eligible producers and importers would then be able to vote on the order in a referendum.

Sugar Quota Modified--On February 27, USDA announced that the 1986 quota year for sugar imports is being changed from December 1, 1985 - September 30, 1986, to December 1, 1985 - December 31, 1986. The change is being implemented to comply with the provisions of the Food Security Act of 1985. The base quota amount of 1.72 million short tons will now enter the United States over a 13-month period rather than a 10-month period. This effectively reduces by over 20 percent the amount of quota sugar which will be imported during the period ending September 30, 1986, since shipping patterns will be adjusted to assure that sugar arrives evenly during the extended period.

1986-Crop Honey Loan Rates--Secretary Lyng announced on April 1 that the price support level for honey will be 64 cents per pound, as mandated by the Food Security Act of 1985. The new rate is 1.3 cents below the 1985 level. Extracted honey loan rates range from 52.2 to 67.1 cents per pound, depend-

ing on color and class. Producers will be permitted to buy back their loans at a lesser price as determined by the Secretary.

Sugar Processor Insolvency--USDA announced on April 29 that sugar producers who fail to receive their full benefits due under the sugar price support program, because of processor insolvency, may request the remainder of these payments from the CCC. Claims for 1984-crop sugar beets must be made by May 29.

Sugar Loan Maturity Date Extended--Sugar processors with 1985-crop sugar loans that mature April 30, May 31, June 30, July 31 and August 31, 1986, can request an extension of their loans to September 30, Secretary Lyng announced on April 30. USDA received requests from processors to extend the maturity dates.

## LIVESTOCK

Identification Devices on Cattle and Swine--Effective December 5, 1985, individual identification devices on cattle and swine moving in interstate commerce are required to remain on the animals throughout their shipment from point of origin through final destination. The identification devices had previously been required, but the devices must now remain on the animals the full time, rather than only for the actual trip across a state line. The purpose of identification devices--such as eartags, backtags, brands and tattoos--is to provide a means of tracing an animal back to its original source in case of disease outbreak and to help identify any other animals that may have been exposed.

Rules for Licensing Veterinary Biologics Manufacturers--On December 10, 1985, USDA announced it can award interim federal licenses to qualified facilities producing veterinary biological products even though the facilities produce some products that do not meet federal requirements for interstate distribution. Veterinary biological products are vaccines, antiserums and antitoxins used to diagnose, prevent or treat animal diseases. Manufacturers must obtain a USDA license for their production establishments and a separate license for each product in order to market the products in interstate commerce. Unlicensed veterinary biological products can be distributed only within the state where manufactured. Under the new provisions, manufacturers may obtain a federal establishment license to produce one or more licensed products while continuing to produce unlicensed products in the same establishment for an interim period of up to 4 years.

Emergency Feed Assistance--On January 6, the Agricultural Stabilization and Conservation Service (ASCS) announced it will begin moving CCC-owned grain into areas eligible for ASCS's Emergency Feed Assistance Program. These are counties that have been designated eligible for emergency Farmers Home Administration loans or designated especially by the Secretary for the emergency program. The CCC will bear any expenses, including transportation and handling, incurred in making the grain available.

Agricultural Product Certificates--USDA revised its rules on January 7 for issuing federal agricultural certificates for products graded or certified under meat grading and certification regulations. The new regulations allow

for the issuance of weekly product certificates instead of the previous daily and biweekly certificates. Agricultural product certificates are official notices that meat and meat products comply with all federal standards, specifications and regulations.

Irradiation of Fresh Pork--Beginning January 15, USDA will permit low-dose irradiation of fresh pork to control trichina if products are properly labeled. USDA plans to approve labeling terms such as "irradiated" or "treated with ionizing radiation."

Poultry Inspection--On January 28, USDA implemented a new inspection method in poultry slaughter plants, which continues its inspection modernization program. It will also reduce costs. The new procedure is mandatory in poultry plants that operated under the Modified Traditional Inspection, which accounts for the vast majority of plants that slaughter young chickens. The traditional inspection procedure divided the inspection process among three inspectors. The first inspector, using a mirror, checked the outside of each carcass. The other two inspectors checked the inside cavity and the internal organs. The trimming of bruises and other defects was done by plant employees under the direction of the inspector. The new procedure, called the Streamlined Inspection System, eliminates the first inspector. Instead, depending on the size of the plant, one or two inspectors are used and each is responsible for checking a whole bird. Plant employees identify and trim bruises and other defects, allowing the USDA inspectors to concentrate on detecting disease and other abnormalities.

Egg Marketing Order--USDA held public hearings in Atlanta, Georgia; Little Rock, Arkansas; San Francisco, California; Philadelphia, Pennsylvania; and Chicago, Illinois during January and February to consider a proposal to establish a Federal marketing order for eggs. The proposed order would: establish an egg research and promotion program, including the use of paid advertising; authorize regulations to remove fowl from production during periods of extreme egg surpluses; and establish a national board composed of producers and handlers to execute the order. The provisions of the proposed order were submitted to USDA by an egg-industry task force. Based on testimony presented at the hearings, the Secretary of Agriculture will issue a recommended decision.

Meat Grading and Certification--On February 18, USDA announced it has increased the hourly fee it charges for meat grading and certification services and has established separate fee rates for different types of service. Meat grading and certification are voluntary services provided to meatpackers and processors for a fee that is required by law to be approximately equal to the cost of providing the service. The increase was needed to offset substantial program operating losses in fiscal 1985. The establishment of separate fee rates for different types of service will distribute more equitably the program's operating expenses to meatpackers and processors. There are two types of applicants: commitment and noncommitment. Commitment applicants agree to guarantee 40 hours of revenue for service per week. Noncommitment applicants request service for a particular day and for the amount of time necessary to complete a specific task. The cost of providing service to noncommitment applicants is substantially higher than the cost of providing service to commitment applicants. Under the new fee schedule, the base rate for commitment applicants will be $27.40 per hour,

and the base rate for noncommitment applicants will be $29.80 per hour. All applicants will be charged $35.40 per hour for services performed during premium hours (time in excess of eight hours per day between 6:00 a.m. and 6:00 p.m., and for hours worked before 6:00 a.m. and after 6:00 p.m., Monday through Friday, and any time on Saturday and Sunday) and $54.80 per hour for services performed on Federal holidays.

1985 Wool Payments--On April 2, USDA announced that sheep producers will receive about $103 million in federal incentive payments on wool and lambs they sold in 1985.

Overtime Meat and Poultry Inspections--USDA announced on April 18 that it will deny meat and poultry plant requests for overtime inspection during the last weeks of fiscal 1986, in order to meet reduced spending levels required by Gramm-Rudman-Hollings. USDA expects the spending ceiling to be reached about September 12 and will issue a Federal Register notice in August noting the date overtime and holiday services will be discontinued.

Beef and Pork Promotion Orders--On March 17 and 18, USDA announced it is soliciting public comments on industry-proposed promotion and research orders for beef and pork. On April 7, USDA issued final rules for establishing (1) procedures and criteria for certifying qualified beef organizations to submit nominations for the Cattlemen's Beef Promotion and Research Board, and (2) procedures for electing pork producers and nominating pork importers to the National Pork Producers Delegate Body. On April 29, USDA designated July 7-11 for the statewide elections of individual pork producers. Candidates receiving the highest number of votes in each state will be eligible for appointment by the Secretary to that state's allotted positions on the National Pork Producers Delegate Body. The Delegate Body will consist of approximately 165 producers, including two or more members representing each of the 50 states and four importers.

Brucellosis--On November 4, 1985, USDA announced that Mississippi has moved up to a class B rating in the national campaign to eradicate cattle brucellosis. As part of its cooperative eradication program, USDA rates states "free" or class A, B or C, depending on the infection rates in herds within those states. On November 13, USDA announced that it will pay indemnity for cattle and swine destroyed because of brucellosis only if the animals are destroyed as part of a total herd depopulation or as part of an approved action plan to rid known infected herds of the disease. On December 31, USDA proposed strengthening its regulations for moving cattle from states infected with brucellosis. Under the proposal, owners of infected cattle would have to comply with a strict timetable when putting into effect state and federally approved plans for testing and monitoring herds. Owners of adjacent herds or herds that have come into contact with an affected herd would have to comply with approved individual herd plans. In class free or class A areas, approved herd plans would have to be in effect within 15 days of the time the herd owners are notified that their herds are infected. In class B or C areas, plans would have to be in effect within 45 days. On February 13, USDA announced that Nevada had moved up to class A status. On February 25, USDA proposed a change in U.S. animal import regulations that would recognize all of Canada as free of cattle brucellosis, allowing cattle from any Canadian province to enter the United States.

Pseudorabies--USDA amended its pseudorabies control regulations, effective December 12, 1985, in an attempt to establish a balance between adequate protection against the spread of pseudorabies in swine and needless interference in the movement of swine between states. The changes provide an alternative method for removing swine herds from the "known infected" classification, an alternate method for attaining or regaining herd "qualified pseudorabies-negative" status, an improved method for monitoring herds vaccinated for pseudorabies, and an alternate way for shippers to move swine interstate to approved livestock markets, feedlots, and quarantined herds.

Avian Influenza--On January 10, USDA announced that avian influenza antibodies were detected in a small flock of chickens located in Snyder county, Pennsylvania. State agricultural officials quarantined the premise and the affected chickens were destroyed. The antibodies are the same subtype of the disease that resulted in the destruction of more than 15 million chickens in southeastern Pennsylvania during a 1983-84 outbreak. Avian influenza is an acute, highly infectious, contagious viral disease of poultry. The more lethal strains of the disease can devastate commercial poultry operations.

Bovine Tuberculosis--On March 31, USDA recognized Alaska as the 27th state to become free of bovine tuberculosis. Tuberculosis-free status is based on a state's remaining free of the disease for a minimum of 5 years, and on its compliance with the uniform methods and rules of the state-federal cooperative tuberculosis eradication program.

Horses from CEM Countries--On December 2, 1985, USDA announced that Maryland, Ohio, and Wisconsin have been approved to receive certain horses over 2 years of age from countries affected with contagious equine metritis (CEM), a venereal disease of horses. The three states have laws in effect that meet federal requirements for inspection, treatment and testing of mares and stallions to make sure they do not bring CEM into this country. With these additions, 12 states may now import stallions and 10 may import mares.

Export Certificates--On February 27, USDA proposed revising its procedures for processing export certificates for meat to ensure timely departures of vessels carrying exported meat products. The proposed rule would allow the vessel to depart if the shipper, shipper's agent, or the vessel's agent provided a signed statement to the Customs Service briefly describing the exported product within 4 business days after the vessel's departure. The current regulations--which require a certificate to be issued by a USDA inspector and filed with the Customs Service before products can be exported --have delayed vessel departures. The proposed rule is consistent with Custom Service regulations.

Meat Imports--USDA removed Mexico and Haiti from the list of countries eligible to export meat products to the United States on March 7. These two countries have not recently exported meat to the United States; this action only finalizes their removal from a list of 42 countries eligible to export meat products to us.

African Swine Fever in the Netherlands--On April 7, USDA added the Netherlands to the list of countries infected with African swine fever, thus

restricting the importation of pork and pork products from that country to the United States. Before the outbreak, cooked pork sausages and perishable canned hams were eligible for importation. Under the new more stringent safeguards, only fully sterilized pork in shelf-stable cans may be imported.

Hog Cholera in Great Britain--On April 18, USDA restricted the importation of swine, pork and pork products from Great Britain because of an outbreak of hog cholera in that country. Passengers returning to the United States from Great Britain will no longer be allowed to enter with pork or pork products unless they are in sterile, shelf-stable containers.

## DAIRY

Purchase Price for Cheese Increased--On December 24, 1985, USDA announced an increase in the CCC purchase price for cheese. The Food Security Act of 1985 prohibits the Secretary from taking any market value of whey into consideration when setting the support price for milk. Therefore, the purchase prices for cheddar cheese produced on or after December 23 are increased 1 cent per pound to $1.25 per pound for 40-pound blocks and $1.2075 per pound for 500-pound barrels.

Whole-Herd Buy-Out--USDA began announcing details of the milk production termination program (whole-herd buy-out) on January 13. Under the provisions of the Food Security Act of 1985, participating producers will terminate milk production and sell for slaughter or export all dairy cattle (cows, heifers and calves) in which they have an interest. Dairy producers interested in participating in the programs should submit bids based on their base period marketings. If the bids are accepted, producers will be required to stay out of dairying for 5 years and not use or allow the use of dairy facilities for the same time period. As background for the bid, producers will be required to submit evidence of the size and composition of their herds as of January 1, 1985, January 1, 1986, and on the date the bid is submitted. Producers must also submit records of their milk marketings from July 1984 through December 1985. A producer's base period will then be the lesser of the milk marketings for the 12-month period beginning July 1984 or January 1985.

On January 30, USDA announced additional details of the program. Dairy producers interested in participating were to submit dollars-per-hundredweight bids February 10 - March 7. Producers were asked to submit bids for one or more of the disposal periods: April 1 - August 31, 1986; September 1, 1986 - February 28, 1987; and March 1 - August 31, 1987. Disposal periods represent the times that producers contract to export or slaughter their dairy cattle. The Secretary has the authority to accept or reject any and all bids. Successful bidders were given the following options for receiving payment: (1) equal annual payments; (2) no payments in the first year, but thereafter the option of equal annual payments or a large payment in the second year with the remainder paid in equal amounts; or (3) a large payment in the first year and equal annual installments after that.

USDA announced on February 7 that payments made under the dairy termination program (whole-herd buy-out) are not subject to sequestering under Gramm-Rudman-Hollings. The payments will not be reduced because of the special

rules applicable to the CCC.

On March 28, USDA announced it has tentatively accepted 13,988 bids to participate in the whole-herd buy-out. Many of the 39,534 dairy farmers who applied submitted multiple bids (up to one for each of the three disposal periods), so the total number of bids exceeded 105,700. Bids per hundredweight of milk ranged from $3.40 to over $1,000. The maximum bid accepted was $22.50 per hundredweight. In the case of multiple bids by an individual, where at least one bid was $22.50 or less, the lowest bid was accepted. Those bids tentatively accepted will result in a reduction of milk production by 12.280 billion pounds during the 18-month program. The cost of the dairy termination program will total $1.827 billion, spread out over the 5 years of the program. Based on 1985 marketings by the participants, the average cost per hundredweight for the program will be $14.88. Assessments will result in an estimated total collection of $650-$700 million. Therefore, the dairy industry will pay for about 38 percent of the cost of the program.

Also on March 28, USDA announced it will begin purchasing 400 million pounds of red meat to help offset the impact of increased slaughter of dairy cattle under the whole-herd buy-out. The purchases, mandated by the Food Security Act of 1985, will be in addition to quantities normally purchased for distribution to the school lunch program and other domestic feeding programs. Purchases of canned beef and ground beef began immediately; the purchase of other red-meat items will be timed to coincide with the slaughter periods.

On April 1, USDA announced the final regulations implementing the dairy assessments for the whole-herd buy-out program. The Food Security Act of 1985 mandates a reduction of 40 cents per hundredweight in the price received by producers for milk produced and marketed commercially in the 48 contiguous states during April 1 - December 31, 1986, and a reduction of 25 cents per hundredweight during January 1 - September 30, 1987. The Food Security Improvements Act of 1986 mandates an additional reduction of 12 cents per hundredweight in the price received by producers during April 1 - September 30, 1986, in lieu of decreasing the CCC purchase prices for surplus dairy products necessary to comply with Gramm-Rudman-Hollings.

On April 18, the CCC issued amended branding instructions for the dairy termination program because of a preliminary injunction issued by the U.S. District Court in western New York. The court prohibited enforcement of hot-iron facial branding. The amended branding instructions allow producers to choose freeze branding as an alternative.

Milk Marketing Orders--USDA held four regional hearings to consider proposals that would amend the location adjustment provisions in Federal milk marketing orders. The proposals, submitted by cooperative associations and dairy processors, would modify the plant location adjustments to prices under the orders to conform with the Class I price differentials mandated by the Food Security Act of 1985. The hearings were held on February 25, March 4, 12, and April 8 in Atlanta, Georgia; Irving, Texas; Indianapolis, Indiana; and Minneapolis, Minnesota.

Heptachlor Contamination--In response to the contamination of milk and dairy cattle with the banned pesticide heptachlor, Secretary Lyng dispatched an

emergency task force to Arkansas, Missouri, and Oklahoma on March 14 to review the problem and recommend USDA actions. The dairy herds are under quarantine and the milk must be disposed of. On March 21, USDA announced that the Farmers Home Administration (FmHA) will make loans to its dairy-farm borrowers in the affected areas so operators can buy feed and replace dairy cattle that must be sold or destroyed. FmHA will also increase its loan guarantee program available to area lenders. On April 11, USDA announced that the Administration had requested a $6 million emergency supplemental appropriation from Congress to provide financial assistance to help dairy farmers through this disaster. The funds, if approved by Congress, would be distributed through USDA's dairy indemnity program.

Nonfat Dry Milk Sales--The CCC sold 10,000 metric tons of nonfat dry milk in January and 31,000 metric tons in March to CONASUPO, the Mexican government's food purchasing agency. The CCC also sold 10,000 metric tons of nonfat dry milk in March to Interbras, a Brazilian buyer.

## NATURAL RESOURCES

Conservation Reserve--On January 13, USDA began announcing provisions of the conservation reserve program mandated by the Food Security Act of 1985. Highly erodible land that enters the program will be ineligible for farming for 10 years and must instead be planted with permanent vegetative cover. Up to 45 million acres may be enrolled in the reserve during the 5-year period 1986-90. Program participants will receive annual rental payments, the amounts depending on the bids per acre and the number of acres under the 10-year contracts. Participants also will receive 50 percent of eligible costs of establishing trees or grass on the acreage placed in the reserve. Rental payments will be made annually as soon as practicable after October 1 of each calendar year. Cost-sharing payments will be made as soon as possible after individual participants report their conservation treatments are in place. The total amount of rental payments for any fiscal year may not exceed $50,000 or its equivalent, if in-kind payments are made. There is no payment limit on cost-sharing for cover establishment.

On January 29, Secretary Block announced that the signup for the conservation reserve will be from March 3-14. Approximately 69.5 million acres will be eligible in the 1986 crop year for entry into the program. The Soil Conservation Service will determine the classification or erosion levels of land. All Class 6, 7 and 8 land is eligible, along with any land in Classes 2 through 5 that is eroding at three times the tolerance level. Producers wanting to put land into the reserve must provide a cropping history covering crop years 1981-85. Bases, quotas, and allotments will be reduced by the ratio of cropland on the farm to the amount put in the program. On March 28, USDA announced it had accepted bids to enter 838,356 acres of highly erodible cropland on 10,307 farms into the conservation reserve. The accepted bids range from $5 to $90 per acre, with an average of $41.82. Farmers had submitted bids for a total of 4,818,561 acres on 44,480 farms. USDA said the low acceptance rate was due to many bidders asking unrealistically high compensation for removing the land from production. On April 17, USDA announced a second signup period May 5-16. Producers will be offered the option to bid for contracts beginning with either the 1986 or 1987 crop year.

## PEST CONTROL

Oriental Fruit Fly--On November 21, 1985, USDA quarantined an area in Santa Clara County, California, to help prevent the spread of the oriental fruit fly, one of the world's most destructive fruit and vegetable pests. In October 1985, USDA quarantined parts of California's Los Angeles and Orange Counties for oriental fruit fly. The quarantine regulations restrict the movement of oriental fruit fly hosts--approximately 100 kinds of fruits, nuts, vegetables, and berries--from the quarantined areas, unless certain conditions are met. A certificate or permit must be obtained from USDA before fruits, vegetables, and other regulated articles originating in the quarantined areas can be moved interstate.

Pink Bollworm--Part of eight Arkansas and Mississippi counties were placed under federal regulation on March 25 to control pink bollworm, one of the most destructive and widespread pests of cotton in the world. The pink bollworm occurs throughout most western cotton-producing regions. Regulated areas include all or part of Arizona, Arkansas, California, Louisiana, Mississippi, Nevada, New Mexico, Oklahoma, and Texas.

Grasshopper Control--USDA issued a final supplement to the Environmental Impact Statement on the Rangeland Grasshopper Cooperative Management Program on April 3. The final supplement discusses the history of the program, includes background on grasshoppers and addresses the environmental impact of several management alternatives. The impact statement is intended for the 1986 treatment program only. Before beginning a program in 1987, USDA will prepare a new impact statement to address treatment programs in 1987 and subsequent years.

## CREDIT

FmHA Loan Funds--On March 12, President Reagan authorized the Farmers Home Administration (FmHA) to make $750 million in additional funding available for farm operating loans. The funds are from other FmHA accounts where demand was less than anticipated; $700 in direct loans was transferred from the emergency disaster program and $50 in guaranteed loans was transferred from the business and industry program.

Homestead Program--On March 18, FmHA announced that borrowers who have had to leave their farms for financial reasons may be able to retain their homes. A farm home acquired by FmHA through voluntary conveyance, foreclosure, or bankruptcy proceedings can be leased back, under certain conditions, to the former owner with an option to purchase. The borrower can apply to FmHA to lease the farm home and a reasonable amount of land, usually about 5 acres, for up to 5 years. To be eligible for the program, a farmer must show, in at least 2 out of the last 5 years, that gross farm income amounted to $40,000 or more and that 60 percent of family income came from the farm operation.

Clear Title Regulations--States may develop central filing systems to notify buyers of farm products of any mortages or liens on the products, under regulations published on March 31 by USDA. The Food Security Act of 1985 permits purchasers to take clear title to agricultural products except when

they receive notice that a lien exists, just as with other products under the Uniform Commercial Code. The law provides a procedure for notifying purchasers through central filing systems established by individual states. The systems are optional, but if established must be certified by USDA. The provisions take effect December 1986.

FmHA Interest Rates Lowered--FmHA lowered the interest rates on most of its loan programs on April 1. The rates on operating loans dropped from 10.25 to 9.5 percent. The rates on farm ownership, soil and water, and Indian land acquisition loan decreased from 10.75 to 10.25 percent. The rate for limited resource loans went from 7.25 to 6.5 percent for operating purposes and from 5.25 to 5 percent for ownership purposes. The new rates reflect a decrease in the cost of money to the government.

CCC Interest Rates--The interest rates on commodity loan disbursed by the CCC steadily declined over the last 6 months. The rate in November 1985 was 8 percent. It decreased in December to 7-7/8 percent. The rate for January and February was 7-3/4 percent. It dropped in March to 7-5/8 percent and again in April to 7-1/4 percent.

## NUTRITION

WIC Study--On January 10, USDA released the results of a 5-year study assessing the effectiveness of the Special Supplemental Food Program for Women, Infants and Children (WIC). Objectives of the study included an assessment of the effect of the WIC Program on pregnant women in terms of pregnancy outcomes, nutritional status, dietary intake, and utilization of health care. The study also examined the effect of WIC on children including growth, dietary intake, and utilization of health care. The study showed that the WIC Program increases the use of infant formula instead of cows' milk and improves some dietary factors of pregnant women's weight gain and improves the use of prenatal care. The study's findings on length of pregnancy and pregnancy outcomes were mixed. While results from one portion of the evaluation indicate WIC is effective in increasing the length of pregnancy by one day, and in reducing the likelihood of both premature delivery and fetal death, these results could not be confirmed by another portion of the evaluation. The study did not find consistent evidence that WIC increases the birthweight of infants as had been expected. WIC Program recipients receive a monthly package of food specifically tailored to their nutritional needs as well as nutrition education and referral to health care. In fiscal 1985, the WIC Program cost approximately $1.5 billion and served more than 3.1 million people a month.

Standards for Beans and Peas--On February 6, USDA proposed establishing voluntary standards for grades of frozen quick-cooking beans and peas. The proposal would allow a product to be called "frozen quick-cooking beans" or "frozen quick-cooking peas" if it consists of one or more of the following single varietal types: white beans, pinto beans, pink beans, black-eye peas, speckled butter beans, baby lima beans, fordhook lima beans, light-red kidney beans, dark-red kidney beans, garbanzos, large lima beans, and beans and peas of other colors or types. The product could be called "frozen mixed bean salad" if it consists of a mixture of two or more of these varietal types. The proposed standards would establish two quality levels:

U.S. Grade A and U.S. Grade B. Quality would be based on similar varietal characteristics (except for mixed types), blemishes, color, extraneous vegetable material, flavor, and odor.

Flavor Enhancer--Effective February 10, USDA permits processors to use monoammonium glutamate as an alternative flavor enhancer in various meat and poultry products. Monoammonium glutamate is classified as a multiple-purpose food substance that is generally recognized as safe by the Food and Drug Administration. Monoammonium glutamate has the same effect as monosodium glutamate in food but does not contain sodium.

Prosciutto Ham--UDSA proposed on February 18 to establish requirements for the importation of prosciutto ham. Under current regulations, uncooked hams such as prosciutto are not allowed entry because of the danger of introducing several swine diseases. However, the Consorzio del Prosciutto di Parma, an association of Italian producers of Parma ham, has developed strict processing procedures for ensuring that its prosciutto is disease-free. The USDA proposal would establish safeguards to ensure that the hams would come only from swine that are free from the diseases and that the identity of the hams would be maintained from the time of slaughter through processing and importation.

Labeling for Meat With Barbeque Sauce--On February 24, USDA proposed changing its requirements for labeling pork and beef products packed in barbeque sauce to make the regulations consistent with the Federal Drug Administration's rules for labeling poultry and non-meat products packed in barbeque sauce.

Lite and Lean Labeling--USDA changed its definitions for the terms "lite" and "lean" and other fat claims used on meat and poultry labels on March 31 to reflect more accurately a product's fat content. USDA also is requiring specific labeling information on products using these terms. Processors will have one year to change their labels in accordance with the new requirements. The new labeling requirements are designed to ensure that products labeled with terms indicating lower fat levels are naturally low in fat or that their fat content has actually been reduced. Under the new definitions, the term "extra lean" will be reserved for products containing no more than 5 percent fat. Processors must disclose the actual amount of fat (expressed as a percentage) on the product label. The terms "lean" and "low fat" can be used only on products containing less than 10 percent fat, and the amount of fat must be stated on the label. The terms "light," "lite," "leaner" and "lower fat" can be used on products containing at least 25 percent less fat than the majority of such products in the marketplace. A statement explaining the comparison must be included on the label. For example, the label for "Leaner Ground Beef" might include "This product contains 20 percent fat, which is 33 percent less fat than is in most ground beef." The terms "lean," "lite," or other fat claims can be part of fanciful names, brand names and trademarks only if the product meets the requirements for that claim and if the claim is explained on the label. This restriction, however, does not apply to the use of these terms on brand-name products like frozen dinners and entrees when the terms indicate a product's usefulness in calorie control. Labels on these products must carry nutrition labeling that includes the fat content. Previous labeling requirements allowed fat claims such as "lite," "lean," and "extra lean" to be used

interchangeably on meat and poultry products containing 25 percent less fat than a comparable product and on products containing no more than 10 percent fat.

## INTERNATIONAL

P.L. 480 Allocations--On January 9, USDA issued revised country and commodity allocations for fiscal 1986 under Titles I and III of Public Law 480, the Food for Peace Program. The plans provide for distribution of $946.7 million in commodity shipments, changed from $950 in the previous quarter. Of the revised amount, $846.7 million is allocated and $100 is being held in reserve for unforseen needs. Title I is a concessional sales program designed to promote U.S. exports and foster economic development in recipient countries. Title III provides for the forgiveness of debt incurred under Title I, based on accomplishments in food for development programs and agreed upon projects.

Great Britain Poultry--On April 8, USDA proposed adding Great Britain to the list of countries eligible to export poultry products to the United States. USDA has evaluated Britain's inspection system, reviewed its laws and regulations governing inspection programs, and made on-site plant visits to review inspection operations and found that it has met all the required standards.

Export Enhancement Program--USDA has made several sales offers in the last 6 months to various countries under its export enhancement program. Sales are made at competitive world prices, but the exporters also receive bonus CCC commodities to help them compete in these markets. The following offers were made:

| Date | Country | Commodity |
|---|---|---|
| Nov 8 | Jordan | 40,000 metric tons milled rice |
| Nov 15 | Philippines | 100,000 metric tons wheat flour |
| Nov 18 | Zaire | 64,000 metric tons wheat flour |
| Nov 26 | Egypt | 8,000 metric tons frozen poultry |
| Dec 9 | Iraq | 150,000 metric tons wheat flour |
| Dec 10 | Nigeria | 100,000 metric tons barley malt |
| Dec 27 | Zaire | 40,000 metric tons wheat |
| Jan 6 | Philippines | 150,000 metric tons wheat |
| Feb 25 | Algeria | 100,000 metric tons wheat flour |
| Mar 18 | Tunisia | 300,000 metric tons wheat |
| Mar 19 | Jordan | 75,000 metric tons wheat |
| Mar 21 | Egypt | 15,000 metric tons frozen poultry |
| Apr 3 | Iraq | 6,500 dairy cattle |
| Apr 3 | Algeria | 500 million eggs |
| Apr 7 | Benin | 45,000 metric tons wheat |
| Apr 9 | Syria | 700,000 metric tons wheat |
| Apr 9 | Indonesia | 7,500 dairy cattle |
| Apr 10 | Algeria | 1,000,000 metric tons wheat |
| Apr 10 | Yugoslavia | 200,000 metric tons wheat |

| Date | Country | Commodity |
|---|---|---|
| Apr 14 | Yemen Arab Republic | 100,000 metric tons wheat flour |
| | | 150,000 metric tons poultry feed |
| Apr 16 | Egypt | 15,000 dairy cattle |
| Apr 18 | Algeria | 500,000 metric tons barley |

Export Promotion Program--Several export promotion plans have recently been announced by USDA in accordance with Section 1124 of the Food Security Act of 1985. The law requires USDA to counter or offset adverse effects on U.S. agricultural exports due to subsidies, import quotas, or unfair trade practices of foreign countries. The following programs were announced in March and April:

| Product | Targeted Countries | Reason |
|---|---|---|
| Frozen potatoes | Japan, Hong Kong, Taiwan, Malaysia & Singapore | Excess supplies in United States |
| Fresh and processed citrus produced in Arizona and California | Japan, Hong Kong, Taiwan, Malaysia, Korea, Singapore & New Zealand | Preferential EC tariffs & retaliatory import duty imposed on U.S. lemons in Nov 1985 by the EC |
| Raisins | Western Europe & Pacific Rim Countries | EC's subsidy & minimum import price system for Greek raisins |
| Walnuts | Western Europe & Japan | Retaliatory import duty imposed by the EC in Nov 1985 |
| Canned peaches & fruit cocktail | Japan & Taiwan | EC export subsidies |
| Almonds | Western Europe, Japan & Korea | Restrictive import policies of India & Egypt & EC's export refund program |
| Wine | Japan, Hong Kong, Singapore & the United Kingdom | Japan's tariff & excise tax system & EC export subsidies |

## DEPARTMENTAL ACTIONS

New Secretary of Agriculture--Richard E. Lyng was sworn in as the 22nd U.S. Secretary of Agriculture on Thursday, March 6, 1986. Lyng was administered his legal oath of office during the evening by the deputy clerk of the White House. Lyng's nomination to the cabinet post was confirmed by the Senate

earlier in the day by a 95-2 vote. Lyng was born June 29, 1918, in San Francisco, and graduated from the University of Notre Dame in 1940. From 1949 to 1967, Lyng served as president of the Ed. J. Lyng Company, a family seed and bean production and processing company in Modesto, California. He was appointed director of the California State Department of Agriculture by Governor Reagan in 1967, and served in that post until 1969 when he was appointed USDA's assistant secretary for marketing and consumer services. From 1973 to 1979, Lyng served as president of the American Meat Institute. He also has served as director of Tri-Valley Growers, San Francisco, California; the Chicago Mercantile Exchange; the Agribusiness Advisory Board, University of Santa Clara; and as a member of the Animal Health Committee of the National Academy of Sciences. Lyng served as USDA's Deputy Secretary of Agriculture during the first term of the Reagan administration. He also served as transition team leader for USDA after Reagan's election in 1980.

New Electronic Information Service--USDA inaugurated a new electronic food and human nutrition information service during National Consumers Week, April 21-25. It is available as a pilot project through "USDA Online" on the Dialcom system. The service provides rapid, one-source access to USDA food and nutrition information as well as information on USDA agencies and contacts involved in food and nutrition programs.

SRS Renamed--On April 25, USDA announced the Statistical Reporting Service has been renamed the National Agricultural Statistics Service and that the new name will reflect more accurately NASS' purpose and broad agricultural focus. The agency's Crop Reporting Board will now be called the Agricultural Statistics Board. The new name describes more accurately the scope of the board's work. The renamings coinside with an internal restructuring of the agency.

Office of Biotechnology--On April 29, Secretary Lyng announced the establishment of an Office of Agriculture Biotechnology to have responsibility in developing and implementing policies and procedures pertaining to biotechnology.

# AGRICULTURE - FOOD POLICY UPDATE: LEGISLATION

by Tom Fulton*

Limit on the Public Debt, Temporary Increase--(P.L.99-155)
This law temporarily increased the limit on the public debt and restored the investments of the Social Security and other trust funds.

Resolution Increasing the Statutory Limit on the Public Debt; Balanced Budget and Emergency Deficit Control Act of 1985--(P.L.99-177)
This law, popularly known as Gramm-Rudman-Hollings, is a joint resolution increasing the statutory limit on the public debt. In addition, it would impose mandatory annual budget deficit spending reductions until the deficit reached $0 by 1991.

Tax Equity and Fiscal Responsibility Act of 1982, Amendment; Trade Act of 1974, Amendment; Railroad Unemployment Insurance Act, Amendment; Emergency Extension Act of 1985, Amendment--(P.L.99-181)
This law extended until December 18, 1985, the application of certain tobacco excise taxes, trade adjustment assistance, certain Medicare reimbursement provisions, and borrowing authority under the Railroad Unemployment Insurance Programs.

Agricultural Act of 1949, Amendment; Food Stamp Act of 1977, Amendment; Agricultural Adjustment Act of 1938, Amendment--(P.L.99-182)
This law temporarily extended the Dairy Price Support Program and certain Food Stamp Program provisions.

Tax Equity and Fiscal Responsibility Act of 1982, Amendment; Trade Act of 1974, Amendment; Railroad Unemployment Insurance Act, Amendment; Emergency Extension Act of 1985, Amendment--(P.L.99-189)
This law extended until December 19, 1985, the application of certain tobacco excise taxes, trade adjustment assistance, certain Medicare reimbursement provisions, and borrowing authority under the Railroad Unemployment Insurance Program.

Resolution Making Further Continuing Appropriations for Fiscal Year 1986--(P.L.99-190)
This law made further continuing appropriations for the fiscal year 1986.

The Food Security Act of 1985--(P.L. 99-198)
This law establishes a comprehensive framework within which the Secretary of Agriculture will administer agriculture and food programs from 1986 through 1990.

Loan programs - Minimum support levels specified for 1986; market-based formulas for 1987-90 with limited annual declines. Further cuts authorized for wheat and feed grains when needed to compete in world markets.

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Marketing loans and certificates required for cotton and rice.

Target prices - Minimum target prices frozen at 1985 levels in 1986-87 for wheat and feed grains, 1986 only for cotton and rice. Target minimums decline in following years.

Acreage reduction - Secretary may use acreage reduction, set-aside, or paid land diversion programs to reduce acreage planted to wheat, feed grains, cotton, and rice. Acreage reduction tied to level of carryover stocks.

Grain reserves - Continues farmer-owned reserve.

Food aid - Continues and expands P.L. 480 and Section 416 international food aid programs. Creates Food for Progress program.

Cargo preference - Exempts specific commercial exports from U.S. flag-vessel requirements. Increases share of food aid shipments which must be carried on U.S. flag vessels.

Conservation provisions - Creates "sodbuster," "swampbuster," and conservation reserve programs to help remove highly erodible land and wetland from crop production.

Other Provisions - Continues, revises, or expands credit, research, extension, and food stamp programs. Authorizes three new market promotion pro~rams.

Programs by Title

Title I--Continues milk support price for 1986 at $11.60 per hundredweight (cwt) with further declines in 1987-90. Requires milk production termination program for April 1, 1986 - September 30, 1987. Amends Federal Milk Marketing orders.

Title II--Continues wool and mohair programs through 1990.

Titles III and IV--Continues price and income supports for wheat and feed grains. Authorizes Secretary to implement marketing loans, loan deficiency payments, target option program, and inventory reduction payments. Allows discretionary marketing quotas for wheat.

Title V--Continues cotton programs through crop year 1990. Requires marketing loans and certificates to make U.S. cotton more competitive in world markets. Allows optional loan deficiency and inventory reduction payments.

Title VI--Continues rice income and price support programs. Requires marketing loans and certificates to make U.S. rice more competitive in world markets. Allows optional loan deficiency and inventory reduction payments.

Title VII--Continues two-tier peanut price support program. Authorizes disaster payments for 1985-90 crops.

Title VIII--Continues soybean price support for 1986-90 crops. Authorizes marketing loans and disaster payments.

Title IX--Continues sugarcane and sugar beet price support programs. Authorizes disaster payments for 1985-90 crops.

Title X--Establishes system for calculating crop and farm acreage bases and program yields. Amends honey program. Limits payments received under wheat, feed grain, upland and extra long staple (ELS) cotton, and rice programs to $50,000 per person per year; disaster payments to $100,000 per person per year. Revises farmer-owned reserve program.

Title XI--Amends Public Law (P.L.) 480 to allow use of foreign currencies obtained through program to encourage development of private enterprise and enhance food security in developing countries through local food production. Creates Food for Progress program to help countries that have made commitments to introduce or expand free enterprise elements in their food sectors. Expands type and volume of commodities donated under Section 416. Creates Special Assistant to the President for Agricultural Trade and Food Aid. Establishes further programs to promote commercial agricultural exports. Changes cargo preference laws to exempt specific commercial program shipments and to increase the mandated percentage of food aid shipments which must be carried on U.S. flag vessels.

Title XII--Prohibits USDA program benefits to farmers who convert highly erodible land ("sodbusters") or wetlands ("swampbusters") to cropland. Authorizes a conservation reserve of 40 to 45 million acres by 1990.

Title XIII--Shifts funding for USDA credit programs from direct to guaranteed loans. Protects buyers of farm products from double payment. Assists farmers who are in financial difficulty or have lost farms in foreclosures.

Title XIV--Authorizes or continues research, extension, and teaching programs.

Title XV--Continues and amends Food Stamp Program through September 30, 1990. Extends Temporary Emergency Food Assistance Program through September 30, 1987. Increases funding for Puerto Rico's Nutrition Assistance Program. Expands nutrition monitoring of needy.

Title XVI--Establishes mandatory promotion programs for beef and pork and an optional program for watermelons. Increases penalties for violations of marketing orders. Mandates development of new grain classification standards.

Title XVII--Establishes processing, inspection, and labeling requirements for poultry and meat imports. Establishes criteria for Agricultural Stabilization and Conservation committees. Establishes a National Commission on Agricultural Policy to study structure, procedures, and methods of formulating and administering U.S. agricultural policies. Authorizes programs in aquaculture research, assistance, and training. Requires study and pilot project on farmers' use of agricultural commodity

futures and options markets. Requires establishment of animal welfare standards. Requires program to control grasshoppers and Mormon crickets.

Tax Equity and Fiscal Responsibility Act of 1982, Amendment; Emergency Extension Act of 1985, Amendment--(P.L.99-201)
This law extended until March 15, 1986, the application of certain tobacco excise taxes and certain Medicare reimbursement provisions.

Farm Credit Amendments Act of 1985--(P.L.99-205)
This law amended the Farm Credit Act of 1971, to restructure and reform the Farm Credit System.

National Agriculture Day, Designation--(P.L.99-207)
This law proclaimed March 20, 1986, as 'National Agriculture Day'

Agricultural Adjustment Act of 1938, Amendment--(P.L.99-241)
This law delayed the referendum with respect to the 1986 through 1988 crops of Flue-cured tobacco and the proclamation of national marketing quotas for the 1986 through 1988 crops of Burley tobacco.

Resolution Making Supplemental Appropriations for the Department of Agriculture--(P.L.99-243)
This law made an urgent supplement appropriation for the fiscal year ending September 30, 1986, for the Department of Agriculture.

Comprehensive Smokeless Tobacco Health Education Act of 1986--(P.L.99-252)
This law provides for public education concerning the health consequences of using smokeless tobacco products.

Food Security Act of 1985, Amendment--(P.L.99-253)
This law made certain technical corrections to the Food Security Act of 1985. That first technical corrections act amended the 1985 Act by changing the cross-compliance provisions for wheat and feed grains from mandatory to optional for the Secretary. The act also changed the way the crop acreage base was calculated in the 1985 Act. Under the 1985 Act, crop acreage bases were calculated by computing the average of the acreage planted and considered planted to the crop for harvest on the farm during the preceding 5 years. In no case was the 5 year average allowed to exceed the average of the past 2 years. The 1986 technical corrections act amends this provision by allowing the average to exceed the prior 2 year average. The third and final provision of PL 99-253 changed the way Agricultural Stabilization and Conservation Service (ASCS) committees are formed. Under the 1985 Act, ASCS committees elected one member annually to the three-member local committee. This provision has now been changed; now each three-member committee holds a single election of all members every 3 years.

Food Security Improvements Act of 1986--(P.L.99-260)
This law makes "technical" corrections in several provisions of the Food Security Act of 1985 (PL 99-197).

Nonprogram Crops - Restricts the nonprogram crop definition in the 1985 farm act in which producers planting between 50 and 92 percent of a crop's permitted acreage receive deficiency payments on 92 percent of their permitted acreage when an Acreage Reduction Program (ARP) is in effect and devote the remaining acreage to conserving use or nonprogram crops.

Protection of Bases - Allows producers to protect at least half of the underplanted base acreage.

Payment Yields - Redefines the 1985 Act provision changing the manner in which farm program yields were to be calculated for crop years 1986 through 1990.

Haying and Grazing - Changes the haying and grazing requirements established in the 1985 Act.

Dairy - Assessments designed to fund the whole herd buyout are expanded to exempt dairy producers from required payment cuts mandated by Gramm-Rudman-Hollings (PL 99-177).

Advance Recourse Loans - A sense of the Congress that the Secretary make available recourse commodity loans in advance.

Warehouse Transfer of Agricultural Commodities - Permits the transfer of agricultural commodities if a temporary space shortage develops.

Trade - Special Trade Assistant--An initial appointment to this position must be made by May 1, 1986. Targeted Export Assistance--$110 million annually or CCC commodities are allocated to targeted export assistance. Market Expansion--between October 1, 1985 and September 30, 1988, $1 billion to $1.5 billion in CCC-owned commodities are to be used to carry out market expansion efforts. African Famine Relief--Amends PL 99-10 (emergency African famine relief) to require the Agency for International Development to submit a plan to Congress by April 15, 1986, on how funds for such relief would be spent.

Food Stamps - Changes the dates for which Congress requires a report detailing quality control measures under the food stamp program.

Alternative Fuels - The CCC Charter Act is amended to permit CCC to sell commodities to fund research and development of external combustion engines using alternative fuels.

Resolution Making Urgent Supplemental Appropriations for the Department of Agriculture for Fiscal Year Ending September 30, 1986--(P.L.99-263)
This law made an urgent supplemental appropriation for the Department of Agriculture for the fiscal year ending September 30, 1986, and for other purposes.

Older Americans Act Amendments of 1986-(P.L.99-269)
This law amends the Older Americans Act of 1965 to increase the amounts authorized to be appropriated for fiscal years 1985, 1986, and 1987 for commodity distribution purposes.

Consolidated Omnibus Budget Reconciliation Act of 1985--(P.L.99-272)
This law provides for reconciliation pursuant to Section 2 of the first concurrent resolution on the budget for fiscal year 1986. The law cacels the flue-cured and burley tobacco quotas that were announced

under provisions of the 1986 programs. Other modifications include: 1: USDA's discretion for setting flue-cured and burley quotas wil be limited to not more than 103 percent or less than 97 percent of the amount determined by manufaturers needs, exports and reserve stock levels. 2: the amount of flue-cured and burley tobacco that can be marketed without penalty has been reduced from 110 to 103 percent of the farm marketing quota. 3: buyers and growers will share equally no net cost assessments. 4: U.S. cigarette manufacturers have agreed to buy the inventory of the 1976-84 crops from loan associations with substantial discounts for the 1976-81 crops. 5: by May 7, CCC must acquire the 1983 burley crop under loan by calling in loans and then offering the tobacco for sale.

National Garden Week, Designation--(P.L.99-275)
This law authorized and requested the President to issue a proclamation designating the calendar week beginning with Sunday, April 13, 1986, as 'National Garden Week'.

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